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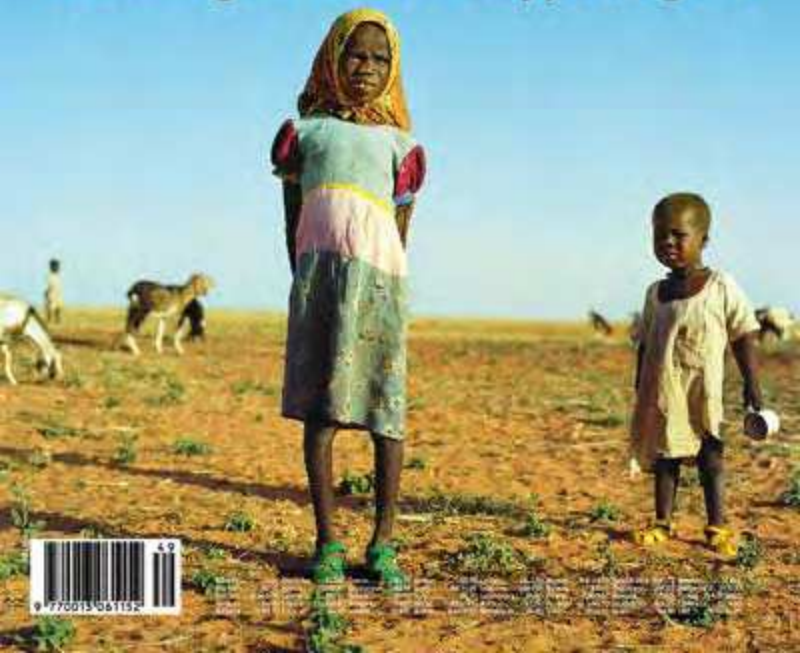

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Politics this week

Dec 1st 2005
From The Economist print edition

Dysfunctional politics

Reuters

Paul Martin, **Canada's** prime minister, called a general election for January 23rd after his Liberal minority government lost a vote of confidence in the House of Commons. See article

Argentina's president, Néstor Kirchner, sacked his finance minister, Roberto Lavagna, who had steered the country from an economic collapse in 2001-02 to vigorous recovery. The move appeared to signal a left turn in Argentine economic policy. See article

In **Venezuela**, the main opposition parties said they would boycott a legislative election due on December 4th. They said they did not trust the National Electoral Council, on which supporters of Hugo Chávez, the country's leftist president, have a majority. See article

According to preliminary results, Manuel Zelaya of the opposition Liberals narrowly won a presidential election in **Honduras**. He opposed bringing back the death penalty for killings by youth gangs. The ruling National Party—which supports capital punishment—had yet to concede defeat.

More bad news for **Brazil's** president, Lula da Silva: the economy shrank by 1.2% in the third quarter compared with the second, while Congress voted to expel José Dirceu, his former chief of staff accused of orchestrating a vote-buying scheme.

A United Nations conference on **climate change** opened in Montreal. Delegates from around the world are looking for ways of hitting the Kyoto protocol's emissions targets and are also considering what action they can take after the treaty expires in 2012. See article

The way to victory

George Bush, responding to increasing pressure from within his own party, went on the offensive over Iraq and produced a **"national strategy for victory"**. In a speech to launch the document, Mr Bush rejected the idea of a timetable for withdrawing troops and warned that training Iraqi security forces would take "time and patience". See article

Mr Bush also found time to address the concerns of his conservative base over legislation (which is languishing in Congress) to provide **illegal immigrants** with renewable work-visas. Speaking in Arizona and Texas, Mr Bush stressed the border-security elements of his plan. See article

The Supreme Court heard its first **abortion** case for five years. It will look at part of New Hampshire's parental-notification law; court observers will look for any indication of a change in

thinking on the issue under John Roberts, the new chief justice.

Not guilty

A court in **Pakistan** acquitted former prime minister Benazir Bhutto of corruption. But other cases, including one in Switzerland, are still pending.

India's opposition Bharatiya Janata Party expelled one of its most notorious firebrands, Uma Bharti.

Pollutants in a river caused by a toxic chemical spill upstream of Harbin, in north-eastern **China**, were meandering towards Russian territory. See article

Reuters

At least seven people were killed and dozens injured in two separate bomb attacks in **Bangladesh**, where a recent increase in violence has been blamed on Islamic militants.

Let's try again

The trial of **Saddam Hussein** and seven others in Baghdad charged with crimes against humanity was again adjourned, this time for a week, because of the recent murder of two defence lawyers.

Violence continued to mar a three-stage general election in **Egypt.** Some 200 supporters of the officially unrecognised Muslim Brotherhood, whose candidates running as independents have continued to do well, were arrested.

Primary elections to choose candidates for Fatah, the **Palestinian Authority's** ruling party, to run in a general election on January 25th were also marred by violence and accusations of fraud, lodged mainly by members of the old guard who failed to be selected. Fears rose that the election, due last July, would be put off again. See article

Shimon Peres, a Labour Party stalwart and former prime minister of **Israel**, said he would leave the party to join the new one set up last month by Ariel Sharon, the prime minister, who recently left the ruling Likud party he co-founded 32 years ago.

Iran's foreign minister said his country would start “preliminary talks” in two weeks with the three EU countries—Britain, France and Germany—which have been trying to persuade it to halt a nuclear programme that could enable it to make nuclear weapons. Previous talks were aborted when Iran restarted nuclear activity at a plant where it had agreed to suspend such work.

Pirates freed a freighter captured off the coast of **Somalia** last month but still hold at least six other ships in the same waters, which are now so dangerous that a mercenary company has won a two-year contract to protect commercial shipping.

Africa's longest-serving head of state, Omar Bongo, president of **Gabon** since 1967, won yet another seven-year term of office.

Another rigged election

Reuters

A parliamentary election was staged in **Chechnya**. Vladimir Putin's party was declared the winner, but outside observers suggested the result was fixed. There is little sign of an end to a conflict that has claimed some 100,000 lives in the Russian region. See article

Germany's new chancellor, **Angela Merkel**, made her first big speech in the Bundestag. She promised reform, but only in the series of little steps agreed by her grand coalition with the Social Democrats. See article

President Jacques Chirac of **France** celebrated his 73rd birthday in sombre style. The French press are already talking of the end of the reign of a deeply unpopular president, even though the next presidential election is not due for another 18 months.

The British and Spanish prime ministers co-hosted a meeting in Barcelona to appraise an EU-funded “process” (initiated ten years ago) to help close the wealth gap between countries on either side of the **Mediterranean**. Two leaders from the ten beneficiary countries turned up. See article

Ukraine was granted “market economy” status at a summit with the European Union. This will help it to join the World Trade Organisation, perhaps next year.

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Business this week

Dec 1st 2005
From The Economist print edition

Merck unveiled a three-year restructuring plan, which includes the loss of 7,000 jobs worldwide—11% of the company's total. It hopes to save up to $4 billion in costs. Meanwhile, the first federal lawsuit to be brought against Merck in America over Vioxx, its anti-inflammatory drug that was withdrawn on safety grounds, began in Houston (two state cases have already been heard). Thousands of plaintiffs are suing the pharmaceutical firm. See article

Ahold settled a class-action lawsuit brought by its American shareholders for $1.1 billion. The company was sued after an accounting scandal, which came to light in 2003, caused its share price to plunge. The Dutch food retailer also revealed that it will split its American food-distribution unit, which was at the centre of the scandal, into two companies, leading to speculation about a possible sell-off.

An American judge refused to enforce a tentative $450m patent-infringement settlement between **Research In Motion**, the maker of BlackBerry wireless e-mail gadgets, and **NTP**. It is a blow to RIM, which now faces a potential court-ordered shutdown of BlackBerry service in America, and may need to strike a deal with NTP for a higher amount.

Carl Icahn said he had employed Lazard (and Bruce Wasserstein, the investment bank's formidable chairman) in his campaign to replace the majority of **Time Warner's** board of directors. Mr Icahn, and other dissident investors, wants the media group to take stronger measures to increase its share value.

Danish delight

A group of American and British private-equity firms made a DKr76 billion ($12 billion) bid to buy **TDC**, a Danish telecoms company with high-growth units in several central and east European countries. TDC's board approved the offer, one of Europe's biggest private-equity buy-outs, although a second private-equity group is rumoured to be preparing a rival bid.

America's Government Accountability Office issued a report that sharply criticised the co-ordination of efforts to combat **terrorist financing**. The GAO said that infighting between American government departments (which disagree with the report's findings) has led to the absence of an “integrated strategy”.

Lloyd's of London reported that it was facing a net loss of £2.9 billion ($5 billion) from Hurricanes Katrina, Rita and Wilma, surpassing the £2 billion net loss it took in claims resulting from the terrorist attack on the World Trade Centre in 2001. The insurance market also said its chances of making a profit in 2005 were now “small”, but none of its syndicates faced insolvency.

Sir John Bond announced his retirement as chairman of **HSBC**, which he helped turn into one of the world's biggest financial institutions. Stephen Green, the bank's chief executive, will replace Sir John in May, and Michael Geoghegan, a 32-year HSBC veteran, will become the new chief executive. Separately, another City knight, Sir David Walker, said he would quit as **Morgan**

Stanley's European chief.

The European Union overhauled its 40-year-old regime on **sugar subsidies**. It will eventually cut the price it guarantees to sugar producers by 36%, but offered generous compensation to EU farmers. The deal offers only *euro*40m ($47m) next year to those poor countries, many of them former colonies, that now enjoy privileged access to Europe's sheltered market.

End of an empire

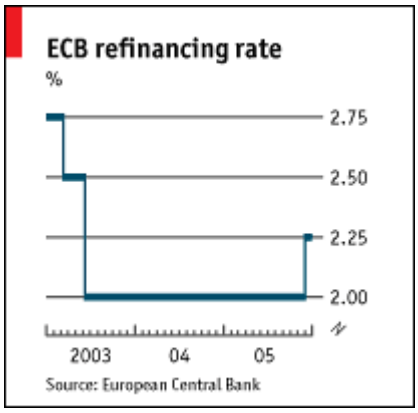
P&O agreed to be bought by **DP World**, based in Dubai, for £3.3 billion ($5.7 billion). The deal brings an end to the independent existence of the 165-year-old British ports and ferries operator, which once saw its shipping and passenger businesses (now sold off) span the world. See article

ThyssenKrupp, a German steelmaker, trumped Arcelor's hostile bid for **Dofasco** by offering C$4.8 billion ($4.1 billion), which Dofasco's board recommended to shareholders. The Canadian steel firm is prized because of the 5.5m tons of flat steel it mostly sells to North America's car industry, although some analysts think both bids are overvalued at a time when carmakers are scaling back production.

Six **luxury hotels** in Paris, including the Hôtel Ritz, were fined a total of *euro*709,000 ($831,000) by France's competition regulator for running a price-fixing cartel. The establishments, which are all foreign-owned, insist they did nothing wrong in sharing information on occupancy rates.

A chorus of disapproval

Amid criticisms from the OECD and finance ministers in the euro area, the European Central Bank put up its key **interest rate** by one-quarter of a percentage point to 2.25%, the first increase in five years. See article



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Canada

Canada's wintry election

Dec 1st 2005
From The Economist print edition

Masterfile

An untimely election points to deeper troubles for the northern alternative to the American way

Get article background

ENORMOUS though it is, Canada is all too easily overlooked. It may be the world's second-biggest country by area, one of its dozen largest economies and a founding member of the G7 club of rich countries. But much of its vast land is frozen waste. Nearly all of its 32.2m people cling to a narrow belt along its border with the United States. Since it is a peaceful, prosperous—dare one say provincial?—sort of place, it rarely makes much of a splash in the world.

Yet there are two reasons why the world—and its American neighbour in particular—should pay a bit more attention to Canada. The first is a rather old-fashioned one. Canada, and especially its west, is one of the great storehouses of the commodities that the world needs in ever greater quantities—something China has recently noticed. New techniques mean that the tar sands of Alberta can be turned into oil at an ever-falling cost. That in turn means that Canada now claims the world's second-largest oil reserves (behind only Saudi Arabia), in addition to a cornucopia of minerals and ten times more fresh water per head than the United States.

The second reason to watch Canada, as *The Economist* has argued before, is that it is a healthy rival to the American way. To the “life, liberty and the pursuit of happiness” of the American Declaration of Independence, Canada replied with “peace, order and good government” in its founding charter. At its best, Canada combines a vigorous American-style capitalism with the social provision and socially liberal attitudes of western Europe. It continues to extend a welcoming hand to immigrants even as they are shunned by many American politicians (see article). Its membership of the North American Free-Trade Agreement signals its embrace of

political co-operation and economic competition with the United States. That these two different “models” meet peacefully at the 49th parallel and strive to outdo each other can be good for both of them.

Grumpily anti-American

The problem is that Canada is not at its best just at the moment, as our survey of the country in this week's issue explains. The economy is doing well enough. But Canada is becoming grumpily anti-American, in ways that go beyond the ubiquitous dislike of George Bush. And its politics is a fractured mess. On November 28th, after 17 uninspiring months, the Liberal minority government of Paul Martin, the prime minister, expired, losing a confidence vote in the House of Commons. The country now faces an election on January 23rd, just when Canadians have their minds on snowbirding south to Florida or the Caribbean for their winter break.

The immediate reason for the election is a corruption scandal involving Mr Martin's predecessor, Jean Chrétien. After Quebec only narrowly rejected independence in a referendum in 1995, Mr Chrétien came up with a plan to promote federalism in the French-speaking province. This “sponsorship scheme” degenerated into a slush fund for the Liberals. On becoming prime minister in 2003, Mr Martin set up a judicial inquiry into the sleaze. In his report last month, the judge exonerated Mr Martin (who was finance minister at the time), but lambasted the scheme's corrupt mismanagement. That prompted the left-wing New Democratic Party (NDP) to withdraw its support for the government, precipitating the second federal election in less than two years.

The awkward thing is that this untimely election is unlikely to settle Canada's underlying political problems. These do not include corruption, reprehensible though this was: the inquiry found kickbacks totalling just C$1.1m ($940,000). Sleaze is merely a symptom of deeper dysfunctions. The Liberals have been in office for 12 years. Stephen Harper, the leader of the opposition Conservatives, was right to say that Canada was seeing the end of “a tired, directionless, scandal-plagued government”. Mr Martin was a fine finance minister, but as prime minister he has, on the whole, disappointed. Rather than reform Canada's cherished but increasingly expensive state-provided health-care system, he has merely pumped ever more money into it. Although he promised to improve relations with the United States, he has not done so.

The dangers of more of the same

So the election campaign represents a great opportunity for Mr Harper to persuade Canadians to set off in a fresh direction. But the opinion polls suggest that will be hard. The Liberals are the only party with national appeal—a big problem in a country where regional tensions are again on the rise. The Conservatives' stronghold lies in the west, and in Alberta in particular. Alberta's brand of social and fiscal conservatism might win election to the White House, but it is instinctively mistrusted in Ontario, Canada's most populous province. It does not help that Mr Harper is clueless with the media.

To the east lies a second regional problem. The sponsorship scandal has revived separatism in Quebec. The election will see the separatist Bloc Québécois retain its grip on the province's expanded anti-Liberal vote. The Bloc makes it hard for the Conservatives to win a parliamentary majority—yet also makes for an awkward coalition partner.

Unless Mr Harper excels, the election's most likely outcome is another Liberal-NDP government. That does not bode well. Economic growth is no longer outstripping that of the United States, as it did between 1999 and 2002. The gap in productivity and incomes is widening. To close it, Canada

needs more investment and enterprise. Mr Martin knows that. Temporarily free from the veto of the old-school socialists of the NDP, last month the government announced tax cuts and new training schemes. That is the right ground on which to stand, but may prove untenable if the Liberals are again forced into coalition with the NDP.

For all of Canada's abiding strengths, more of the same politics may not be good enough. The booming west—Alberta especially—feels ignored in Ottawa. Another independence vote in Quebec may be no more than a couple of years away. Keeping Canada cool, calm and collected is starting to look a lot harder than it did only a couple of years ago.

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Sudan

Stop the killing, again

Dec 1st 2005
From The Economist print edition

Eyevine

Sudan's peace accords will unravel unless outsiders co-operate to intervene

Get article background

AFRICA'S largest country has long been one of its most troubled. Sudan is a bubbling hotchpotch of sharply different regions, tribes and religions that have been clashing violently virtually since the day the British colonial administration left in 1956. Various governments at the centre, in Khartoum, have tried with scant success to control the periphery. Some 2m people are thought to have died in a civil war between north and south that has raged, more off than on, for the last three decades. And while a fragile peace signed two years ago between the Muslim Arab northerners, who have always run the show, and the black African (mainly Christian and animist) southerners has just about held, another vicious war, this time in the western province of Darfur, has been threatening since 2003 to tear the country apart yet again (see article).

Some 200,000 people in Darfur have been killed and over 2m have been displaced. And this year yet another insurgency sprang up in the north-east. The centre, however repressive, cannot hold things together. It is vital that outsiders—from Africa, from the United States and from Europe—co-operate to make peace. At present, they are dismally failing to do so.

No one is guilt-free

The government in Khartoum, run since 1989 by an Islamist party that once hosted Osama bin Laden but has since dampened its jihadist sympathies, is mostly to blame for the dreadful bloodshed. The two non-Arab groups that started the rebellion in Darfur are by no means angelic, but the government's response has been utterly disproportionate. Government-sponsored

mounted Arab militias, known as the *janjaweed*, continue to murder, rape and pillage with impunity, while the Sudanese airforce's Russian-made helicopter-gunships and aircraft still bomb and strafe civilians as well as rebels, despite a UN Security Council resolution decreeing a no-fly zone for military aircraft over Darfur.

Hopes for peace rose in 2004, when a complex agreement early in the year ended the north-south conflict, while a more tentative ceasefire, a few months later, was agreed upon between the Darfur rebels and the Khartoum government. Both deals were brokered mainly by the Americans and the Europeans. No one, in Africa or further afield, except perhaps for the likes of al-Qaeda, wants the country to fall apart into warring fiefs, as in Somalia, a failed state and potential purveyor of terrorism in the nearby Horn of Africa.

But in the past two months the Darfur ceasefire has pretty well broken down. The province is too dangerous for all but the most intrepid of foreign aid workers and charities. In the past few weeks, hundreds more civilians have been killed and thousands driven from their villages. Hundreds of thousands of Darfuris in refugee camps are again in danger. Peacekeeping soldiers provided by the African Union (AU) as part of the deal have been killed and aid convoys looted. The Arab *janjaweed* have carried out most of the attacks, while rebels have been responsible for others. The region is not as bloody as it was in the darkest days of 2003 but it could become just as bad unless outsiders intervene or persuade Sudan's government to desist. Just as worryingly, this mayhem in the west could prompt the delicate peace agreement with the south to unravel too.

The United States, which has imposed trade sanctions for some years, and the European Union, which enforces an arms embargo, have been mainly responsible for persuading a reluctant government in Khartoum to come to terms with the southerners and to rein in, temporarily, their massacring proxies in the west. But America and the EU should not have to act alone. While they have sought to isolate and cajole the regime in Khartoum, Russia and China have been rewarded with handsome oil concessions. In a sort of latter-day version of the 19th-century scramble for Africa, India and Malaysia have been granted oil concessions too. In return, these countries have been loth to tell Sudan's government to stop the killing. As a democracy that is rightly proud of its pluralism, India in particular should speak out. The Arab League, true to form, has been disgracefully silent about the murderous behaviour of one of its member governments.

But America has also been remiss, putting out confusing signals. In George Bush's first term, it achieved a lot by consistently pressing Sudan's government to make peace in the west and south. But different branches of the administration are pursuing conflicting short-term aims. Congress retains trade sanctions against Sudan and the State Department has not retracted its accusation, of 15 months ago, that Sudan's government has been committing genocide in Darfur. But the CIA has been cosying up to Sudan in the name of the war on terror. The administration has given hundreds of millions of dollars in food aid to help Darfur's displaced people, but the House of Representatives has cut funds for the AU'S struggling force which escorts the food convoys to the refugee camps. In 2001 Mr Bush made Senator John Danforth his special envoy to help bring peace to Sudan—which he did, with others and with success, in both south and west. A figure of similar standing and determination is now urgently needed to disentangle America's conflicting interests, let alone those of competing foreigners.

Everyone should help

If the Americans and their chief allies were not mired elsewhere, a bigger intervention, with their support, would be in order. But they have neither the capability nor the will for it, and China and Russia would probably block it. The AU's 7,000-strong force, with NATO logistical help, is the best on offer, though Sudan's government is still doing its utmost to obstruct it, spending months, for example, holding up the delivery of Canadian armoured cars. More of a fuss should be made about

such behaviour—and the West should be more generous with its own help: a few helicopters, for instance, would hugely help the AU, which needs the EU and America to pay for another 5,000 troops on the ground. Above all, leaders in the West should help stir the world's conscience. Sudan must not be allowed to fall apart again.

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Climate change and the North Atlantic

The sound of distant howling

Dec 1st 2005
From The Economist print edition

Reuters

Signs of climate change are hard to be sure about. But the latest do look alarming

Get article background

AESOP'S most famous fable is about a shepherd boy who cried “wolf” so often when no wolf was around that when one did appear nobody took any notice of his warning. Some environmentalists risk falling into the same trap. They are so convinced of the righteousness of their cause that they will cry “wolf” at any event that might plausibly be thought to support their view of the world.

That attitude makes it hard for responsible scientists studying important environmental issues to know when to raise the alarm. The climate is complex and no single piece of research is likely to prove the existence of a dangerous trend. It is a matter of judgment when enough bits of data have accumulated for action to be justified. So Harry Bryden and his colleagues at Southampton's National Oceanography Centre have been careful not to overstep the mark when commenting on their work on ocean circulation and its possible effects on parts of Europe, which has been published this week. Nevertheless, it is now possible to discern a dim howling in the distance.

Changing places

A lot of heat moves around in the oceans. The currents that do the moving change from time to time, and both computer models and evidence from sediments and ice cores suggest such change can happen in a matter of decades. Dr Bryden's data indicate that what history and the models describe may actually be happening at the moment to currents in the North Atlantic. If true, it would mean a cooler future for north-west Europe—possibly a lot cooler. And that future would be close; the change could happen over the course of two or three decades. Moreover, the most plausible explanation for the shift is, paradoxically, global warming (see article).

Sceptics could, and should, point out the uncertainties—in particular, that the conclusion relies on a mere two individual years' worth of data. Though these indicate a shift in the past decade after four decades of stability, it is just possible they could be blips. Given the murky and statistically uncertain nature of climatology, however, Dr Bryden's result is about as robust as can be expected.

More important, it is the first in what will be a series of results, since oceanography's rise in the scientific pecking order means its practitioners can now afford the instruments and infrastructure to monitor parts of the ocean continuously. The truth will soon out and it is not, therefore, necessary to cry wolf quite yet, though it may behove those paid to think about such things to put more effort into looking at how governments should respond if north-west Europe does get significantly colder in the next few decades.

Dr Bryden's finding, though, also provides a reason to think more clearly about the whole issue of climate change. The Kyoto protocol, which is the subject of a big international meeting in Montreal this week and next, is costly and unlikely to achieve its stated aims. But the meeting is also supposed to begin the process of sketching out what the post-Kyoto world might look like. This result may focus minds, whether that focus is directed towards trying to stop global warming or, if it is decided that climate change is unstoppable, working out the best ways to live with it. And if the next few years do confirm Dr Bryden's result, it will be a triumph for the modellers who predicted it, and a reason to take their cries about other climatic wolves far more seriously.

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Economist.com OPINION

Awkward Russia

Hindrance or help?

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From The Economist print edition

AFP

Testing Vladimir Putin's true intentions

SQUINT just a bit, and it could almost be that the cold war never ended. Russia's relations with America and Europe have turned frostier since Ukraine's “orange” revolution a year ago wrested a rigged election from Vladimir Putin's preferred candidate. Since then, Mr Putin has turned his orange-tinted pique on Poland (Ukraine's supporter) and his Baltic neighbours, openly backed the bloody suppression of democracy protests in Uzbekistan, and let it be known that Russia will “stand by” Iran and Syria, fending off UN sanctions. At home, Mr Putin's allies have proposed a new law to throttle foreign-financed NGOs and subject Russian ones to Soviet-style bureaucratic harassment. And he is sticking more cronies on the boards of key companies not already under his control. All this makes Mr Putin's Russia an awkward partner for the West.

There is an added awkwardness, too: Russia is shortly to become chairman-for-a-year of the G8 group of (until Russia joined the original G7) rich, market-driven democracies. The G8 is not the world-steering mechanism its members like to think it is. But, elevated prematurely to membership in hopes of encouraging it towards greater democracy and economic reform, Russia has done less and less to earn its place.

The true picture is not entirely bleak. Russia is not reverting to communism. Its economy, though increasingly manipulated, is still open for private business. Though Mr Putin regrets the collapse of the Soviet Union—earlier this year he called it “the greatest geopolitical catastrophe of the 20th century”—he is more nouveau tsar than commissar. Nor is there anything wrong with Russia pursuing its own foreign-policy interests in relations with America or Europe. The real problem for Russia is how narrowly Mr Putin defines those interests. That, and his increasing crankiness with those who challenge him, which compounds the mistake.

Getting Russia on message

The new NGO law may yet be amended, to keep foreign funds to battle AIDS, or find peaceful work for Russia's former nuclear, chemical and biological weaponeers. But the clamp on Russian NGOs is likely to endure (see article). Like China, Mr Putin is cracking down in part out of fear that the “colour revolutions” that overturned rotten governments from Georgia, to Ukraine, to Kirgizstan will spread further. But depriving Russians of any channel for political debate (he has knocked away other checks on his power) will not make Russia better governed, or help end the home-grown mayhem in Chechnya (see article). And helping dam up the pressures for change in badly misgoverned neighbours, like Uzbekistan, will make the eventual explosion more deadly to Russia too.

As for Syria and Iran, Mr Putin's policies have a logic, up to a point. With Iraq under new management, Syria is Russia's only real foothold to hoist itself into a seat at future Middle East negotiations. Iran offers Russia the chance to do what China does over North Korea: play up its own diplomatic influence by offering to broker a deal.

A big test of Mr Putin's foreign-policy intentions will come if the regime in Damascus refuses all chivvying to co-operate with the UN investigation into the killing earlier this year of Rafik Hariri, Lebanon's former prime minister. Or if Iran tosses aside Russia's offer to enrich uranium on its behalf, as a way of heading off a clash over Iran's own “peaceful” enrichment programme that two decades of cover-ups and lies have led many governments to worry is just a cover for bomb-building.

Better for Russia, and everyone else, if he were to tell Iran (and get China to as well) that starting its own enrichment, as it is threatening to do, will end Russia's support at the UN and invite sanctions. Bringing Russia on message is about all, diplomatically, that might give Iran pause. If he managed that, even a prickly Mr Putin could usefully spend part of his G8 presidency helping to devise a scheme of nuclear-fuel guarantees for other countries too, cutting the risk that such technologies could in future be abused for weapons-making.

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Economist.com OPINION

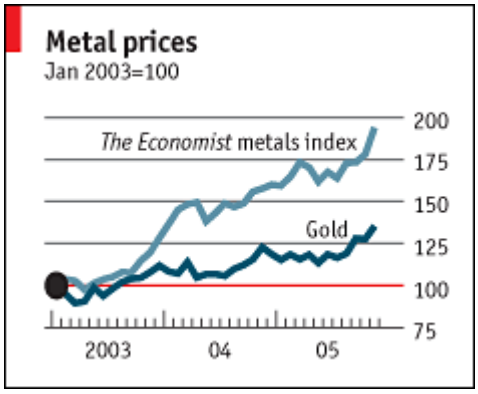
Gold

The little yellow god

Dec 1st 2005
From The Economist print edition

Even at $500, it's still a barbarous relic

Get article background



NOTHING swells the breast so much as the thought that you have been proved right at last. After riding high at the start of the 1980s, gold bugs had a miserable couple of decades. The price declined relentlessly, mocking their credo that the security of the financial system ultimately depends upon the yellow metal. Lately, though, the faithful have enjoyed their reward. In the past five years the price of gold has doubled. This week in Asian trading it briefly surpassed $500 a troy ounce—a level last breached in 1987. You can almost feel the bugs' excitement as the message sinks in: gold is back.

This being gold, the resurgence has brought forth all manner of alarming prophecies. The price is an omen of rampant inflation; bonds are doomed; the dollar is about to fall prey to the United States' reckless deficits; the euro will shortly be revealed as a worthless creation of bureaucrats.

The world is an unpredictable place. But, with the possible exception of a fall in the dollar, not much of the above catalogue of doom looks likely; and none of it has much to do with gold's good run. The dull truth is much less bullish for gold. Investors have put money into a wide range of metals, and precious metals' prices, including gold's, have risen with the base. Meanwhile, gold remains fundamentally unattractive. It yields nothing and central banks are sitting on vaultfuls of the stuff that they want eventually to sell. Gold bugs hope that $500 is the threshold at which mainstream investors will start once again to take an interest in the metal. *Caveat emptor*.

The fascination of gold lies in its being not only a commodity but also a store of value and means of exchange. The glamour and the mystique lie in the latter, monetary part. This is what draws gold bugs, but their story doesn't quite add up. The unbalanced world economy still faces risks. But the most recent rises in the gold price have come against a strong dollar, which is normally a sign of weaker gold and continues to confound warnings of a collapse in the greenback. Oil prices are plainly far higher than they were, but they have come off their peaks. Moreover, there have been few signs so far that oil prices are feeding through to a 1970s-style stagflation. Nothing in either bond or stockmarkets suggests that investors see much danger of such a thing happening.

Bear on bullion

Gold's renewed shine is best explained by thinking of the metal not as money but as a commodity dug out of the ground. In the past few years the price has climbed because mining companies stopped locking in prices by selling gold in advance—in effect, withdrawing a huge source of supply. Even then, gold has captured only 40% of the gains of other metals in *The Economist*'s

metals index, which has almost doubled since the start of 2003 thanks partly to fundamental demand from emerging markets and partly to investors in search of better returns than those from other assets. Gold would have done better had Chinese demand risen as fast as some expected; in fact, figures from GFMS, a consultancy, suggest it has been flat, even falling, over the past 20 years. Chinese investors now have other places to put their money.

Gold is still cheap compared with its peak of $850 in 1980. Today, adjusting for changes in American consumer prices, it is worth only a quarter as much. Gold bugs might see that as a chance to buy; others as a reminder of gold's enduring capacity to disappoint.

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Pensions

Britain's pickle

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From The Economist print edition

Lord Turner proposes a simpler, fairer pensions system. The government should go for it

Get article background

UNTIL quite recently, pensions mattered to two small and politically uninteresting minorities: actuaries and old people. Anybody who raised the issue of pensions could be certain of emptying the House of Commons and ensuring a mass switch-off of televisions and radios across Britain.

Demographics have changed that. The ageing of the population has both made the current pensions system unsustainable and swelled the numbers of people worried about their future. More than half the voting-age population is over 45, which means that most voters are either retired or worried about retirement. For the first time ever, pensions are as hot as an issue can get. That is why the chancellor of the exchequer took the trouble to rubbish the report of the man the government asked to think about the issue even before it came out.

It is to be hoped that the government can put Gordon Brown's unfortunate intervention in the debate behind it, because Lord Turner's report, published on November 30th, sets out the right framework for reform. If politicians reject it, future voters will not forgive them. But that's the trouble with the pensions issue: by the time the scale of the disaster becomes clear, this lot will be long gone anyway.

Where did it all go wrong?

Britain's pensions system was once the envy of Europe. Based on a partnership between the government—which spends relatively little on state pensions—and companies—which have been funding ample private-sector pensions—it seemed to be both generous to pensioners and

affordable to taxpayers.

That partnership has broken down. Companies that once helped shoulder the retirement burden through funded pension plans are cutting back their commitments now that low investment returns, low interest rates and higher life expectancy have created frightening deficits. And the government's strategy of targeting cash on poorer pensioners through means-tested top-ups is discouraging saving.

So who should pay? If firms are burdened with too many employment-related costs, they will stop hiring. If the burden is put squarely on individuals (and Britons, who place too much faith in their houses, are not great savers), some will prove unable and others unwilling. If the government has to raise taxes sharply to pick up the tab, the economy will become less productive; what's more, using taxes to pay for pensions shifts the burden between generations, and it is unfair to make young people pay for their elders' thriftlessness.

Lord Turner, who offers a three-part solution, has got it broadly right. The first part is to raise the state pension age (now 65 for men and rising from 60 for women) to 68 by 2050. This must be correct. The current limit has been stuck at 65 since 1925, despite galloping advances in life expectancy. Higher tax revenues and lower pension spending would then bring a double dividend for the public finances.

Raising the pensionable age would therefore let the government take Lord Turner's second step: making the state pension more generous. This is crucial. If the state pension were broadly sufficient to meet pensioners' basic needs, the pension credit introduced by Gordon Brown to help the poorest among them would wither on the vine. The idea behind the credit was a decent one: to target more money at poor retired people than at better-off ones, while keeping down the cost to the Treasury. The problem is that, because the pension credit is means-tested, those who think they will get it have no incentive to save. And as companies cut back on pension provision, more and more workers will become eligible for this top-up—70% of all pensioners in about 30 years' time, on present trends. That will discourage the accumulation of retirement nest-eggs right up the income scale. So whittling back the credit is an important element in overall reform.

Realistically, however, even an improved state pension would not be enough to take up all the slack left by retreating companies. So the third part of Lord Turner's solution is to get individuals to save more at the same time as ensuring that companies still chip in. To encourage people to save, employees would be automatically enrolled in “Britsaver” accounts modelled on New Zealand's plans to introduce a “Kiwisaver” scheme. Employers would have to contribute too. By collecting these payments through the tax system, and channelling them to private funds chosen by employees, the state will cut the cost of saving and increase its value. Evidence from America suggests that automatic enrolment, with a voluntary opt-out, is likely to boost participation sharply compared with requiring people to opt in. Unlike full compulsion, it won't feel like just another tax.

There is disagreement over how much these proposals would set back the public purse (see article). Any calculations of the cost of the new system need to be set against realistic estimates of the current one, however. The Treasury projects that, without reform, state pension spending will remain unchanged as a proportion of GDP while the number of pensioners soars, which is clearly nonsense.

The government should not only accept Lord Turner's proposals but also address the disparity between pension arrangements in the private sector and those for public-sector employees, confirmed just a month ago. Over the past five years, the number of those on public payrolls has risen sharply; so too has their pay. They also have greater job security than their opposite numbers in the private sector. Though this will change for new recruits from next year, existing

public employees retire at 60, and on index-linked salary-related pensions. Such pension schemes now cover far fewer workers in the private sector and soon will cover hardly any.

This disparity cannot be allowed to persist. Any pensions solution depends crucially on forging consensus, across parties, sectors, generations. Gas workers, in the public sector till 1986, are already planning a series of strikes to protest the closing of their once-generous company pension plans to new workers. When others are being asked to slog on until 67 and more, public-sector employees cannot swan off at 60. Whatever the pain, this decision must be reversed.

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Economist.com OPINION LETTERS

On torture, farming subsidies, Arab-American, Kashmir, General Motors, conservatism, Microsoft

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From The Economist print edition

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Don't speak too softly

SIR – Generalisations about the policy of the United States towards suspected terrorist detainees obscure the very real difference between subjecting people to degrading treatment and actually torturing them ("How to lose friends and alienate people", November 12th). The media's shorthand description of American interrogation techniques as "torture" is misleading and simplistically separates the issue into a "good guys versus bad guys" scenario. Does *The Economist* really believe that an effective interrogation policy must entail a clear statement to any and all terrorists that under no circumstances are we allowed to even go so far as insulting a detainee? If a terrorist is aware that there is no chance of his suffering the slightest hint of a negative consequence for his failure to co-operate with the interrogation, then please explain how we stand any chance of ever extracting a single piece of information from him? The possibility and fear of unspecified consequences for not co-operating is an important component of psychological interrogation techniques that do not use torture.

Bernard Mulligan
Providence, Rhode Island

Farming today

SIR – While Charlemagne is right that the European Union's attempt to reform the common agricultural policy (CAP) in 2003 was "too little" for Europe's trading partners, he over-emphasises the effects of previous attempts at reform (November 5th). The OECD's "producer support estimates" (its measure of subsidies) shows that the level of subsidy as a proportion of output has hardly changed over the past 15 years—the subsidy rate last year was roughly the same as in 1990. On top of this, progress on decoupling subsidies from production has been limited. Even after 2003's reform, market price support, one of the most contorted elements of the CAP, will still remain the dominant form of CAP spending so the overall reduction in distortion will be slight. It is clear that the only way to stop the CAP from misshaping world trade is to reduce payments to farmers, rather than repackaging them, as the EU has so skilfully done over recent decades.

Paul Stephenson
Open Europe
London

SIR – Charlemagne seems puzzled as to why anyone would want to be "the farmers' friend". Yet farmers are hard workers and high savers—Adam Smith himself praised the "solid improvements" of agriculture over commerce as the sure foundation of an industrial revolution. Practically all countries that have subsidised their farmers (northern Europe, the United States, Japan) have

prospered. Moreover, practically all countries in the developing world (and many rich countries) operate policies largely in favour of an “urban bias”. Agricultural subsidies can redress this policy imbalance by compensating farmers through a “rural bias”.

Fr A. Meixner
Soni, Tanzania

Arab-Americans

SIR – You ask why is it that Arab immigrants assimilate better in the United States than in France (“Hyphenating beats segregating”, November 19th)? I would like to provide a parallel case from when I taught in Italy as one possible explanation. At my school, a group of students was referred to simply as “the Japanese”. Eventually, I discovered that these students had been born in Italy and held Italian passports, yet no one ever referred to them as Italian. Because of their long history, the definition of what is “a European” is resistant to change, whereas the terms “American” and “Canadian” are being redefined constantly.

Scott Paterson
Neuchatel, Switzerland

A sense of priority

SIR – As the wretched residents of earthquake-wracked Kashmir sit shivering in the snows of the Himalayan winter, it will no doubt be a great comfort for them to know that the Indian and Pakistani governments have had the foresight to bolster their security by expending countless billions of dollars on developing nuclear weapons that are unlikely ever to be used (“No shelter”, November 12th). No doubt any thoughts that the money thus expended might have been put to better use in building earthquake-proof schools, clinics and hospitals in one of the most geologically active zones in the world will never enter their heads.

Brian Leary
Berkhamsted, Hertfordshire

GM's wheels coming off

SIR – Even neophytes in the world of real estate know that only three things matter when buying a house—location, location, location—so it's hard to fathom why the once mighty General Motors still fails to realise that the only things that matter about a car are its mechanics, mechanics, mechanics (“That sinking feeling”, November 19th). What every car owner wants is a vehicle that starts at the first turn of the ignition key, does not stall on the highway, overheat in summer, or sputter in winter. GM has failed badly in this respect, focusing instead on fancy gadgets, showy extras and useless options. Rick Wagoner, GM's boss, ought to take a look under the hood of an Acura, BMW or Toyota. Perhaps that could set GM on the road to lasting salvation.

Benoit Jadoul
New York

SIR – The sinking ship depicted in your article on GM should have been named after the *Edmund Fitzgerald*—a vessel carrying iron ore that went down with the loss of 29 crew on Lake Superior in 1975. Both GM's management and the United Auto Workers are like the *Fitzgerald*'s ill-fated crew, ploughing on against fatal headwinds, seemingly unable to recognise the inevitable catastrophe ahead. Gordon Lightfoot's popular song recounts how the *Fitzgerald* was trying to reach the safety of a port in the storm at Whitefish Bay. The sooner that GM turns to its Whitefish Bay of

bankruptcy, the better for both management and workers.

Louis Knapp
Rockville, Maryland

Preceding the birth

SIR – Lexington makes the observation that American liberals have been around since Benjamin Franklin, but conservatives "were born with the baby boom" (November 12th). This comes as news to anyone familiar with the thoughts of John Winthrop, Alexander Hamilton, Daniel Webster, William Graham Sumner, Albert Jay Nock, James Burnham, Frank Meyer and Russell Kirk, to name but a few. While William Buckley may have "rescued conservatism from obscurity and ignominy" he was, as Clinton Rossiter observed, the heir to a rich if thankless persuasion.

Robert Johnstone
Richmond, Indiana

Microsoft's operation

SIR – I was dismayed to see the term "transplant" in reference to Microsoft's move into "innovative gaming DNA" ("The meaning of Xbox", November 26th). "Transplantation" is properly the transfer of cells or organs from one organism to another. "Transfection" is applied to the transfer of DNA, though it should be noted that, among mammalian systems, the procedure is highly inefficient.

Aaron Hess
Bethesda, Maryland

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Economist.com WORLD AFRICA & MIDDLE EAST

Sudan

It'll do what it can get away with

Dec 1st 2005 | EL-GENEINA, JUBA AND KHARTOUM
From The Economist print edition

Corbis

Outside powers all seem to want a piece of Sudan. But none of them has been able to stop the government in Khartoum from continuing to mistreat its people

Get article background

INSIDE the parliament building in Juba, a bare main hall laid out like a university lecture theatre, the world's latest stab at nation-building is in progress. The legislators of what might one day be the new state of South Sudan have been working since October on an interim constitution, which they have now completed. The mood, as might be expected, is excited and optimistic. But the slow and elaborate formalities of the proceedings betray the immense difficulties of this brave attempt to surmount the divisions and hatreds that have for so long overwhelmed the peoples of Sudan.

The members of parliament refer to each other as “the honourable” and there are endless “points of order”, some serious, some frivolous, a nod to Sudan's British colonial heritage. The first language used by the legislators is English, but everything is translated into Arabic, an acknowledgement of the cleavage in Sudanese society between black Africans and Arabs. And the slow pace of affairs is compounded by the availability of just one hand-held microphone that is slowly passed from member to member to allow themselves to be heard. The deputy speaker concedes that this is less than ideal. But the reason, as he cheerfully puts it, is because “we are starting from zero.”

It is less than a year since the Comprehensive Peace Agreement (CPA) was signed between Sudan's Islamist government in Khartoum and the Sudanese People's Liberation Movement (SPLM), the main rebel movement representing the largely Christian and animist south. Until the signing of this pact, the SPLM, which contributes the bulk of the legislators to the new parliament, had been waging a guerrilla war against the government. It was a war that began back in 1958 (with an uneasy break from 1972 to 1983) and which has devastated the whole of the southern region, killing some 2m people.

The peace agreement, which devolved almost all power on domestic issues to a new southern government, was designed to encourage the south to become a decentralised part of Sudan. But in six years' time, if the agreement is honoured, the region's long-term destiny will be decided by the southerners, voting in a referendum on full independence. They may decide to go their own way. Judging by current feelings, they will do so—if they are allowed to.

Juba, always the south's main town, was further chosen as the future capital because it is the only town that retains a passable paved road—and even then, only just. With so little left standing (and there wasn't much there to begin with), the southerners who are trying to rebuild this vast area are indeed starting from zero.

But they are not alone in their work. What was left of Juba's infrastructure is now sagging under the weight of a new sort of colonial army, this time from the United Nations. The first few hundreds of UN staff have already arrived, the advance guard of a civilian and military deployment in the south that may reach 10,000, all there to make sure that the CPA works. The UN's ubiquitous white land-cruisers rule Juba's streets, and accommodation in the town is no longer to be had. The best option now is a tented camp on the edge of town on the banks of the Nile, a largely white-faced, blue-helmet enclave.

Another geopolitical scramble

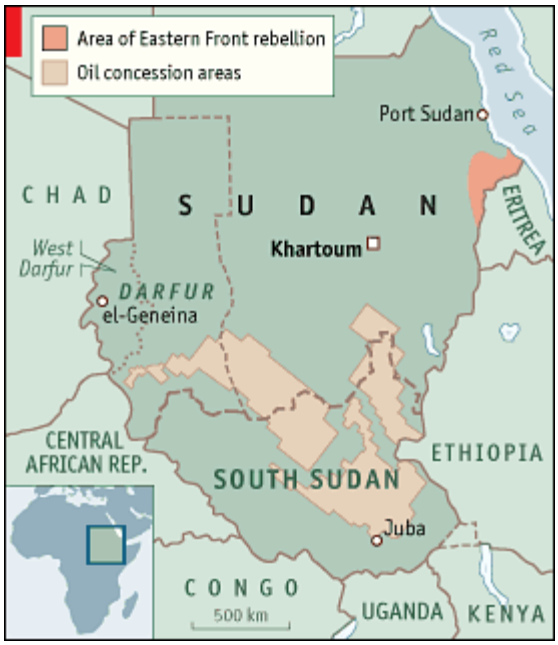
So why has Juba become a city of such international concern while other African towns emerging from civil wars remain rotting? A measure of this is the fact that, in April, an international donor conference to support the CPA got promises of $4.5 billion. Again, why should America's deputy secretary of state, Robert Zoellick, have visited Sudan four times this year, more times, as he quipped recently, than he has visited New York? The answer lies in the huge geopolitical interests at stake in Sudan, Africa's biggest country, where every problem of the contemporary world seems to meet, from terrorism and oil through “failed states” and genocide. The canvas of issues, and opportunities, is so broad that it draws in the great, the powerful and the not-so-good.

The new powers of Asia, China and India, are in Sudan for the oil. China, with a 40% stake, is the biggest single shareholder in the consortium developing the industry, but the Malaysians with 30% and the Indians with 25% are not far behind. Almost all the oil produced goes to thirsty China: it is estimated that 4.5% of China's oil needs are now being met by Sudan. On top of this, Khartoum is more or less being rebuilt by the Chinese, who bring all their own labour with them.

The Russians, who also have oil interests, probably have military deals with the Sudanese government as well. In its new spirit of “owning” more of Africa's problems, the African Union (AU) is desperately trying to keep the peace in the war-ravaged western region of Darfur. NATO helps by providing logistics. The UN and the EU (particularly Britain) are committed both to preserving the peace in the south and to feeding the 2m refugees in the west. Hundreds of international NGOs help with feeding and protecting the refugees.

None of it makes the government nicer

The United States has so many different agencies and branches of government involved in Sudan, sometimes in apparent contradiction of each other, that it is often hard to follow who is doing what. The CIA is co-operating with the Sudanese government on anti-terrorism, though it is still on the State Department's list of countries that sponsor terrorism. And while USAID spends billions of dollars developing the south, Congress has maintained trade sanctions against Sudan for years and, indeed, has just renewed them.



The trouble is that for all the money being poured into Sudan, and for all the new engagement with its once despised Islamist government, nothing much seems to be shifting the behaviour of the government towards its own people. This, after all, is the same government that, in 2004, Colin Powell, then America's secretary of state, accused of genocide in Darfur. Although the situation there improved after that, there has been plenty of evidence in the past few months that it is slipping back into horror. So much so, indeed, that last week the UN's secretary-general, Kofi Annan, declared it to be in a state of anarchy.

The Sudanese government was, in effect, let off the hook by the peace agreement in the south. The agreement is what everyone hopes will hold Sudan's self-destructive forces in check. But the fear is that while the southern peace may have legitimised the Khartoum government in the world's chancelleries, making it a negotiating partner, even an ally, of the West, it has also given it licence to carry on killing its own people in western Sudan—and now in the east as well, where a rebel group recently opened up a new front.

Outside involvement in Sudan is complex and contradictory. The regime in Khartoum has become expert at playing on those divisions—a trend that holds little promise of relief for the millions of refugees in Darfur who still live in daily fear of the government and its surrogate killers. Yet relations between the West and Sudan have travelled a long way over the past two decades. One way to reflect on the changes is to take a drive up the main highway out of the capital heading north, leading eventually to the Red Sea city of Port Sudan. This is the road that was built in the early 1990s by Osama bin Laden and his construction company, at that time honoured guests of the government.

Mr bin Laden was welcomed in by Omar al-Bashir, who had seized power in a coup in 1989, with the support of the National Islamic Front, led by Hassan al-Turabi. With its support for Saddam Hussein during the first Gulf war and its willingness to play host not only to Mr bin Laden but also to Carlos the Jackal, another sort of international terrorist, Sudan quickly became a pariah state.

President Bashir's government ramped up the southern war that it had inherited from its predecessors. The black African south of Sudan has always been a distinct region from the Arab north; the British had ruled it as such before leaving in 1956. As independence loomed, Britain even considered detaching it from the north, to fit into a new East African federation. But in the

end, the new nation of Sudan was born as a unitary state, and almost immediately the southerners began their guerrilla war against what they saw as a remote, racist and oppressive government.

Under pressure from foreign governments, Mr bin Laden was expelled from the country in 1996, but most Sudan-watchers agree that the real turning point in the West's relations with Sudan came in August 1998 when the United States fired cruise missiles into a pharmaceutical plant that it claimed, wrongly, was producing chemical weapons for al-Qaeda. Fearing more of the same, or even an attempt at “regime change”, the government began to back-track, seeking re-engagement with the West. Mr Turabi, viewed by many as the evil genius of the regime, was placed under house arrest.

Green light for the religious right

But then George Bush became America's president and sections of the religious right, a vital constituency in his Republican base, got fresh impetus for their battle on behalf of the SPLM in the south. They mostly saw it as a straight war of Christian emancipation against a dictatorial Islamist government. But anger was intensified, and money was raised, because of the revulsion against the north for taking slaves as part of its counter-insurgency operations. These seizures were carried out by Arab militias, who also razed rural southern villages and abducted children.

On September 6th 2001, Mr Bush formally launched his initiative to push the government to come to terms with the SPLM, a step that was largely taken, argues John Eibner, a member of Christian Solidarity International who has long campaigned against slavery, “as a result of domestic pressures that had built up in America”. With the backing of the unusual political coalition of America's white evangelical churches and its black civil-rights movement, Mr Bush's initiative was mainly responsible for producing the CPA, which was signed on January 9th 2004.

The Bush administration is now the CPA's most important financial and political backer. It is also deeply engaged with Sudan at other levels. Even before the attacks on New York and Washington on September 11th 2001, Sudan had begun to spill its very useful beans on al-Qaeda. This intelligence rapprochement reached its climax this spring when the head of Sudan's intelligence service, Salah Abdullah Gosh, was feted in Washington, DC, for a ten-day debriefing by the CIA. The agency is said to have marked out a piece of land in the outskirts of Khartoum, on which it will build a big listening-post to monitor events in the Horn of Africa.

Not everything has gone Sudan's way: even if American spooks are chummy, Congress's trade sanctions remain in place. Yet the United States, together with the EU, has certainly brought the regime in from the cold. The question remains: what are the Americans and the Europeans getting for all their friendly efforts?

Even in the south, almost all the SPLM members of parliament express scepticism about whether the northern government seriously wants to make the peace agreement work, let alone whether it wants to bring peace to other parts of Sudan. The point of the CPA, in its own wording, is “to make unity attractive to the south”; that is, to give the south as many reasons as possible to stay as a devolved part of a greater Sudan. All the international actors involved want Sudan to remain a unified state, not least because they fear the bacillus of national disintegration spreading to other rickety African states.

Some more equal

There is no doubt that the carrying-out of the CPA was affected by the death in August, in a helicopter accident, of the charismatic John Garang, the leader of the SPLM who negotiated the agreement on behalf of the south; his star-shaped tomb is just outside the parliament building in Juba. But Coldau Ding, a veteran SPLM leader and now a member of the new parliament, argues that “up to now we have not seen the fruits of attractiveness”.

One major cause of irritation is the lack of co-operation on oil. Three large fields lie in the south's territory and, under the peace deal, the revenues from those fields are supposed to be split equally between the government in Khartoum and the south. Until now, however, the south, according to Mr Ding, has seen only a “small advance” from the north, even though the money is needed urgently. A joint north-south oil commission, which was called for by the CPA, has finally been set up to try to resolve the oil disputes.

But another early blow to the south's confidence in the CPA is the distribution of cabinet seats in the new National Unity government in Khartoum. The SPLM has a 28% share of the new government, and its new leader, Salva Kiir, is the first vice-president. But Mr Bashir's party, which has a 52% share, has awarded itself the ministries of energy and finance, two of the most powerful posts in the new cabinet. This has led many to wonder how much power Mr Bashir really wants to share with his new southern colleagues.

Another big concern has been the dearth of demilitarisation in the south. Mr Ding argues that the local militias, which the government used during the war as its proxy killers, are “still at large”, despite provisions in the peace agreement for them to be integrated, either into the military wing of the SPLM or into the regular Sudanese army. Moreover, despite the fact that its presence is supposed to be reduced, the regular army is still very much at large in Juba, creating what Mr Zoellick recently described as “the impression of a psychological state of intimidation in the south”.

Many fear that the CPA is already being whittled down by Khartoum. But the more immediate worry is the resumed killing in Darfur, and the risk of ever more deaths from famine and disease. Some 2m displaced people, in an area nearly the size of France, still depend for survival on humanitarian assistance from the UN and international NGOs. Yet security has become so bad that the UN has withdrawn, temporarily, all non-essential staff from West Darfur. Most NGOs, whose staff have been attacked, beaten and sexually abused in increasing numbers, now operate just in the main towns. It is only a matter of time before the resulting fall in supplies to the camps restarts the cycle of under-nourishment and disease that had been brought under control last year.

Rebellion broke out in Darfur in 2003, led by two groups, the Sudan Liberation Army (SLM) and the Justice and Equality Movement (JEM). But discontent had been smouldering for decades. Unlike the south, the west never demanded secession from Sudan, but the local African Muslims resented the discrimination and neglect that they suffered at the hands of the Arab Muslims in Khartoum. The rebellion was brutally suppressed by the northern government, using its mounted Arab militia, the *janjaweed*, as its proxy killers. At least 180,000 people are estimated to have been killed in Darfur between 2003 and 2004. A ceasefire was signed a year ago. But now, once again, killings and expulsions have restarted.

To some extent, the SLM bears responsibility for the new wave of violence since it has been attacking food convoys and aid workers. But the Sudanese government has done almost nothing to help or co-operate with the already under-equipped AU force that is supposed to enforce the ceasefire. Worse, the government has totally failed to carry out its obligation, under the ceasefire, to disarm or rein in its dreaded *janjaweed*. These militiamen massacred thousands of civilians during the war, and are now continuing to do so.

Human Rights Watch, an international monitor, has protested against plans to hold an AU meeting in Khartoum next January, while Sudan's government continues to ravage Darfur. At the latest meeting of the AU's Peace and Security Council, Sudan succeeded in keeping the issue of Darfur off the agenda, despite the rising violence. Hardly surprising, since Sudan chaired the meeting. To critics of the regime, such as Gill Lusk, who writes for *Africa Confidential*, a newsletter, all that has happened since the regime re-engaged with the West is that it has learnt to “calibrate finely what it can get away with”.

Getting away with murder

The Sudanese government can do this with all the more confidence knowing that it has the backing of China and Russia. Through their positions on the UN Security Council, the two powers have been successful in watering down western attempts to impose limited UN sanctions on Sudan because of its behaviour in Darfur.

Sudan's regime uses periods when the world's attention is focused on one problem to get away with murder elsewhere. Now, with attention still on peace in the south, it is not only resuming its repression in Darfur but is shifting forces to the east to suppress a rebellion in an area where the same history of frustration at bad rule from Khartoum has periodically welled up into armed revolt.

In truth, all of Sudan's regional problems are interconnected. Until a government emerges in Khartoum that is prepared to concede a share of power and wealth to the impoverished peripheries of the country, a peaceful and prosperous new Sudan is unlikely to take shape.

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Immigration

Come hither

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From The Economist print edition

AP

George Bush has promoted a sensible immigration plan, to the horror of many of his supporters. But the devil is in the details

THERE is a state of emergency on the border between Arizona and Mexico, with all the confusion that entails. The radio hisses: “We've got a ‘failure to yield'.” A Border Patrol agent has ordered a vehicle to pull over and seen it speed off instead. He needs back-up. Patrolman Jim Hawkins races towards the scene. Passing a suspicious-looking pick-up truck en route, he sighs that he doesn't have time to stop. A few minutes later, however, the patrolman who called for help manages to catch his prey unassisted, though the driver assaults him, so Mr Hawkins goes looking for the suspicious pick-up truck. There was someone in it using what looked like a Border Patrol radio, he explains, which could mean that it was a people-smuggler.

Mr Hawkins's instincts are shrewd, but wrong. The pick-up's driver is using a Border Patrol radio because he is, in fact, a Border Patrol agent, who had impounded the vehicle after finding two dozen illegal aliens squeezed in the back. Their disguise was averagely cunning. They came in a convoy: two pick-ups, each with a sheet of plywood over the bed, painted the same colour as the truck itself to make it look like the bed was empty, when in fact it was packed with Mexicans. Some 40 of them—men, women and children—sit glumly beneath a mesquite tree, waiting to be processed. The one smuggler who failed to escape into the roadside bushes stands even more glumly to one side, in handcuffs.

A few miles away and 11 days later, on November 28th, George Bush gave a speech about illegal immigration. “America has always been a compassionate nation that values the newcomer and takes great pride in our immigrant heritage,” the president told patrolmen at an air base in Tucson, Arizona. “Yet we're also a nation built on the rule of law, and those who enter the country illegally violate the law. The American people should not have to choose between a welcoming

society and a lawful society. We can have both.”

He then outlined a plan to curb illegal immigration without starving the fruit-picking and construction industries of labour, and without offering “amnesty” to illegals currently on American soil. Given how upset people get about this issue, how hard it is to tackle and how deeply it divides Mr Bush's own party, political strategists might doubt Mr Bush's wisdom in making it the last big domestic battle of a wretched year. For Americans outside the Beltway, however, the questions are: “Is it a good plan?” and “Will it work?”.

The problem is familiar. Unlike other rich countries, the United States shares a long border with a poor and populous neighbour. According to the Pew Hispanic Centre, nearly 500,000 unskilled migrants arrive every year to do the kind of strenuous, low-paid jobs that Americans shun. Yet the United States issues only 5,000 visas a year for unskilled foreigners seeking year-round work. As Tamar Jacoby of the conservative Manhattan Institute explained to the Senate in July: “A Mexican without family in the US who wants to do something other than farm work has virtually no legal way to enter the country. And even a man with family here must wait from six to 22 years for a visa.”

So they come illegally, as the stampede of sandy footprints at popular crossing-points attests. Many are caught, but most aren't. Since the penalty for capture is repatriation, the only deterrent to trying again is the $1,500 a head the “coyotes” or smugglers charge. Coyote gangs do not hesitate to beat, rob or kill migrants who enter “their” territory without paying.

Meanwhile, many other foreigners enter America legally but then either stay on after their visas have expired or work when they are not supposed to. All told, there are an estimated 11m “illegal aliens”.

Many Americans do not mind. The illegals undoubtedly boost the economy. They wash dishes more cheaply than locals would, benefiting anybody who ever goes to a restaurant. Without Mexicans, vegetables would go unpicked and nursing homes would be filthy. But others object strongly to illegal immigration. Three reasons are usually cited.

The first is economic. The middle classes may love illegal gardeners, but many unskilled Americans fear being displaced by them, or forced to accept lower wages. “Keep them fools out,” says Alvin Pablo, an unemployed landscaper in Tucson, who says that Mexicans took his job. A recent study by the Congressional Budget Office found that the negative effect of migrants on the wages of unskilled Americans was less clear, and probably lower, than people imagine: it reduced them by something between zero and 10%. But this will hardly comfort Mr Pablo, who favours erecting a huge fence along the border.

The second gripe about America's porous borders is that they might let terrorists in. A Texan lawmaker claimed this month that al-Qaeda operatives have moved to Mexico, learned Spanish and been caught slipping into the United States disguised as economic migrants. Mr Bush mentioned terrorism twice in his speech in Tucson.

The third complaint about illegal aliens is that they are illegal. The failure to enforce immigration laws undermines the rule of law itself. Or, as many employers would put it, the fact that America does not issue enough visas to unskilled workers forces them to break the law.

AP

The other side of the story

Mr Bush is trying to please as many grumblers as he can. His plan is two-pronged: he wants to tighten controls at the border, while simultaneously relieving pressure on it by “creating a legal channel for those who enter America to do an honest day's labour,” through a new temporary worker programme.

More guards, more permits

For the first prong, Mr Bush is relying on cash and technology. He boasted this week of having increased funding for border security by 60% since taking office. True enough, but, as Ms Jacoby told the Senate, the number of Border Patrol agents has tripled since 1986, and their budget risen tenfold, without noticeably staunching the flow of illegals.

Mr Bush argued that “cutting-edge equipment like overhead surveillance drones” can give agents a “broader reach”. The border patrollers agree. An unmanned spy plane can hover over the border for 10-12 hours, beams Michael Nicely, the Border Patrol chief for the Tucson sector. His men have all manner of gizmos, from “stop sticks” that slowly deflate the tyres of fleeing cars to “pepperball launching systems”—glorified paintball guns that immobilise rowdy smugglers.

Captured migrants sometimes have no idea how they were spotted. Carmen Vasquez, interviewed in a holding pen in Nogales, says she was tip-toeing through the mountains with her family after dark when she was suddenly surrounded by Border Patrol agents on roaring quad bikes. Agent Hawkins explains (though not to Ms Vasquez) that she was seen through an infra-red camera on a distant hilltop. “Don't let anyone tell you we can't control our borders,” says Mr Nicely, “We just need more resources.” He mentions lights, fences, infra-red cameras and helicopters (of which he already has 53—four times more than are available to help feed Sudan's stricken Darfur region).

As well as catching more illegals, Mr Bush wants to deal more rationally with those who are caught. He wants to end “catch and release”, the policy whereby four-fifths of non-Mexican illegals, when caught, are released pending an appearance before a judge, to which 75% of them fail to show up. He also touted the success of a pilot scheme in west Arizona where illegal Mexicans, instead of being repatriated to border towns, were flown and then bused back to their hometowns. With further to walk, only 8% of the 35,000 deportees so dealt with were caught again.

But can more gadgets and tougher rules beat market forces? As she waited to be “voluntarily repatriated”, Ms Vasquez said she would like to come back soon. Her sister, she said, makes $1,000 a month cleaning hotel rooms in Florida—ten times what she could earn back home.

Which brings us to the more controversial, and promising, part of Mr Bush's plan. To “match

willing foreign workers with willing American employers to fill jobs that Americans will not do", he proposes letting illegal aliens currently in America register for legal status. After paying fines and back taxes, they would then be allowed to work for a fixed period, after which they would have to return home. He insisted that this would not constitute an "amnesty". Right-wingers said it did. "Now we've finally caught the president in a lie," fumed Neal Boortz, a talk-radio host.

Whether a temporary worker scheme gets off the ground depends on Congress. The Senate is soon to consider two bills. One, sponsored by John McCain (an Arizona Republican) and Ted Kennedy (a Democrat from Massachusetts), calls for a guest-worker programme much like Mr Bush's. The other, sponsored by John Cornyn of Texas and Jon Kyl of Arizona, both Republicans, lays more emphasis on enforcement. This week, Mr Bush praised both Mr McCain and Mr Kyl.

However the bills are blended together, a guest-worker programme will work only if it meets two criteria. First, it must allow a realistic number of temporary work permits—enough to match the demand for migrant labour. Second, employers who hire illegals must be punished, as they rarely have been in the past. Mr Bush touted a programme called "Basic Pilot", which allows firms to check with a federal database to see whether a prospective worker is legal. And he boasted that swoops on worksites under "Operation Rollback", which was "completed" this year, resulted in the arrest of hundreds of illegal aliens and convictions against a dozen employers.

Hundreds of arrests, when the total number of illegals is around 11m? That is the kind of number that enrages Chris Simcox, the head of the Minutemen, a group that patrols the border and organises protests much further inside the country (such as outside a day centre for illegal aliens in Virginia, where they can hook up with employers). He fumes at the "hypocrisy" of "a federal government that will not enforce the rule of law". He adds: "That's going to lead to anarchy, [and] out-of-control cultural change in this country."

The mainstream media paint the Minutemen as spiteful and clueless vigilantes. One of them dressed an illegal alien in a T-shirt with the slogan: "Bryan Barton caught me crossing the border and all I got was this lousy T-shirt". Against this, Mr Barton was expelled, and in parts of conservative America Minutemen are heroes. A recent CBS poll found that 75% of Americans—and 87% of Republicans—think more should be done to keep illegal aliens out. That is why Mr Bush has to sound tough.

But not only tough. For a start, the Republicans are keen to woo Latino voters, who are quick to punish politicians who bash their immigrant cousins. Moreover, conservative whites are not as xenophobic as their bumper stickers. They may wax indignant about the need for higher fences, but when asked detailed questions about what should happen to the illegals already in the United States, they quickly turn pragmatic. A recent poll of likely Republican voters by the Manhattan Institute found that only a third favoured mass deportations, and only 13% thought it was possible to deport all 11m illegals.

Most encouragingly for Mr Bush, when asked if they would favour a comprehensive bill that included both tougher enforcement (at the border, and in workplaces) and a way for illegals to get temporary work permits that might, with good behaviour, lead to citizenship, 72% of these Republicans said yes. The tired, poor, huddled masses are still welcome.

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George Bush and Iraq

At last, a man with a plan

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A defiant and fairly detailed pitch. But will it work?

Reuters

Punching back

Get article background

THE constitution may bar George Bush from running for a third term. But the president is back in full campaign mode at the moment—determined to justify a war that is losing public support, even among Republicans. Indeed, watching his trip to the naval academy in Annapolis, Maryland, to give the first in a series of speeches on Iraq, you might be forgiven for thinking that he had also taken a time-machine back to the glory days of the 2004 campaign. Mr Bush gave a surprisingly strong performance (a far cry from his bumbling in Asia), the naval officers all clapped at all the right moments and, on cue, John Kerry obliged with a long-winded reply.

Mr Bush's speech contained a lot of predictable stuff. He jabbed at those Democrats who want to lay down a timetable for withdrawing (and praised Joe Lieberman for wanting to stay the course). He welcomed the current debate in Washington, DC, while simultaneously hinting that it was demotivating the troops. And he sang his familiar hymn of praise to democratising the Middle East.

But he also did rather more than this. He seems to have finally realised that worries about Iraq can no longer be soothed by familiar rhetorical bromides. People want to know answers to concrete questions, such as when the troops will come home. Mr Bush did not exactly answer these questions. But he went further towards doing so than he has in the past.

Mr Bush's first job was to demonstrate that America has a “plan for victory”. He did this not just by standing in front of lots of plaques inscribed ingeniously with “plan for victory”, but also by publishing a 35-page “National Strategy for Victory in Iraq”. Billed as the declassified version of the administration's master plan, it argues for advancing on three fronts: political (by building democratic institutions and bringing more Iraqis into the process); economic (rebuilding the country's infrastructure); and security (building Iraq's defences and defeating insurgents).

Mr Bush's second job was to reassure people that American troops will one day come home. He refused to give any timetable for withdrawal: that would simply embolden the enemy. He also refused to talk numbers: troop levels will be determined by conditions on the ground. But he argued vigorously—and with an unusual amount of detail—that America is succeeding in training Iraqi troops, pointing to successes in towns like Tel Afar.

How persuasive is Mr Bush's case? He not only wants to reassure voters that he knows what he's

doing. He is also in the business of pressuring Congress. The Pentagon has already requested $3.9 billion for next year to help prepare Iraqi troops, on top of the $10.6 billion that has already gone to rebuild Iraq's security forces.

The speech was followed by predictable sword-play between the parties. The Democrats accused Mr Bush of failing to provide enough detail. The Republicans accused the Democrats of wanting to cut and run. But three things can be stated with reasonable assurance about the “Iraq factor” in American politics.

First, Mr Bush waited far too long to publish this plan. This tardiness has convinced millions of people that he does not know what he is doing; it also means that many people may now think he only produced the plan this week to shore up waning support. Second, the real test of Mr Bush's rhetoric will be on the ground in Iraq (see article). It is worth keeping a close eye on Tel Afar. If Iraqi forces can keep order in Mr Bush's showcase city, then his talk of an orderly transfer may not sound quite so starry-eyed.

Third, Mr Bush's problems in Iraq don't necessarily translate into Democratic gains. It is true that public opinion has soured on the war (in a recent Harris poll only 32% of Americans said that they are confident that Iraq will be successful in turning into a stable democracy). But the polls hardly suggest that the Democrats are gaining much traction on the subject. A poll taken by RT Strategies shows 51% of Americans think the opposition is criticising the war to gain partisan advantage and 44% believe that morale is hurt “a lot” by politicians who criticise the war. Baghdad is not the only place with a stalemate.

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Economist.com WORLD NORTH AMERICA

The budget battle

Shadow boxing

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The real argument is about who pays higher taxes tomorrow

IDEOLOGY, party discipline and irresponsibility have been the drivers of fiscal policy. Tax cuts—anywhere, anytime—have been the Republican creed, enforced by iron-fisted leadership in Congress; meanwhile nonchalance about deficits has allowed spending to soar. In the past few months all three drivers have sputtered. Conservative Republicans are now shouting about spending restraint. Moderate Republicans are nervous about more tax cuts for the rich, And tumbling poll ratings have broken party discipline.

The result is a fight, largely between Republicans, about which voters will suffer when the era of irresponsibility ends. Which of George Bush's tax cuts, most of which expire between 2008 and 2010, will be extended? What should be done about the Alternative Minimum Tax (AMT), a parallel tax for the wealthy that is ensnaring ever more middle-class people? And how to cut spending—especially on mandatory programmes, such as Medicare?

Nobody wants the pain to be felt immediately. For all the talk about fiscal discipline, both the House of Representatives and the Senate are still cutting taxes harder than spending. Before leaving for a two-week Thanksgiving holiday, the Senate agreed to shave $35 billion from mandatory programmes over the next five years while cutting taxes by just under $60 billion. The House of Representatives agreed to $50 billion worth of spending cuts. Its tax-cut package, still not passed by the full House, is worth almost $60 billion.

The packages do have a few similarities—for example, both extend a long-standing tax-credit for research and development—but they have very different priorities. The House package, supported by Mr Bush, tries to cement his tax-cutting legacy. Conservative congressmen want to extend the dividend- and capital-gains tax cuts from 2008 to 2010. By contrast, the Senate ignores these tax cuts and concentrates on restricting the AMT, which will affect 19m people in 2006 (up from 3.5m this year), as well as introducing a one-year windfall-tax on oil companies. Some 40% of the House tax cuts would go to those earning more than $1m a year; the very rich would get only 8% of the Senate's cuts.

The two chambers' spending plans also show divergent priorities. The House cuts are bigger and tilted towards poorer Americans. Spending on Medicaid, the health-plan for the poor, is trimmed by $12 billion. (House Democrats are furious, but many of the proposals in the Republican plan, such as modestly extending co-payments and making it harder for rich Americans to give away assets to their relatives and then plead poverty so that Medicaid pays their nursing home bills, are supported by many Democratic governors.) The House plan trims nothing from Medicare, the health-plan for retirees, including the affluent. The Senate's proposed spending cuts are smaller, but they do trim Medicare.

These priorities also reflect a Republican schism over political strategy. Worried that they might lose seats in next year's congressional elections, conservatives want to lock in Mr Bush's tax cuts, especially as the budget-reconciliation process is filibuster-proof. The right cares less about the

AMT, because it hurts most in high-tax states, which tend to be Democratic; conservatives bet that Democrats will fix the AMT later. Moderate Republican senators are more nervous both about the AMT and about spending cuts that hurt the poor (especially if they are coupled with more tax cuts for the rich).

Ideally, the current impasse would force the two chambers to consider more fundamental reforms when they return on December 5th. That seems unlikely. The White House is muttering about tax reform next year, but it will be very hard for a weak president to push through any change that included losers as well as winners. As for entitlements, Mr Bush is unlikely to start a scrap over Medicare.

Far more likely is a messy muddling through: some tax cuts will be extended to please conservatives, there will be some AMT relief and further dilution of spending cuts to placate moderates. Or there may be no formal budget reconciliation at all. After all, uncontroversial tax breaks, such as the R&D tax credit can be extended by separate legislation. Conceivably, the fiscal outlook would be better if neither plan passed. Eventually, however, Congress will have to stop bickering and make the numbers add up.

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Congressional scandals

Top gun for hire

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A hero with leaden feet, a Rolls-Royce and Persian carpets

Reuters

One day Tom Cruise will look like this

ICARUS may not be an exact parallel, but Randy "Duke" Cunningham, whose exploits as a Navy fighter pilot inspired the Tom Cruise movie "Top Gun", has plunged earthwards with startling speed. On November 28th the eight-term Republican congressman, who represents part of San Diego County, stood in tears outside a federal courtroom, confessed to accepting $2.4m in bribes and to evading more than $1m in taxes, and announced his resignation: "I broke the law, concealed my conduct and disgraced my high office."

Indeed so. Mr Cunningham, a rock-solid conservative, sat on the House Appropriations Committee and its defence subcommittee and was chair of the House Intelligence subcommittee on terrorism and human intelligence. The federal charges and Mr Cunningham's 33-page guilty plea detail an astonishing list of bribes and favours accepted from defence contractors in return for helping them to win government business.

Thanks to the self-interested generosity of four co-conspirators, much of it funnelled through the congressman's company, Top Gun Enterprises, Mr Cunningham was supplied with a Rolls-Royce, antique furniture, Persian carpets, the use of a yacht (the *Duke-Stir*) as rent-free accommodation in Washington, even a graduation party for his daughter.

One spur for the federal investigation was Mr Cunningham's $1.7m sale of a house in Del Mar two years ago to Mitchell Wade, the founder of MZM Inc, a contractor that specialises in classified intelligence work. Less than a year later, in a booming housing market, Mr Wade sold the house at a loss of $700,000. In the meantime Mr Cunningham, using in part his illicit funds, had bought a house in affluent Rancho Santa Fe for $2.5m.

Under the terms of his plea bargain, Mr Cunningham will forfeit his antiques and other possessions along with his financial interest in the Rancho Santa Fe home, and more than $1.8m in cash. He could also, when he returns to the San Diego court for sentencing on February 27th, face up to ten years in prison and a fine of $350,000.

Nancy Pelosi, the House Democratic leader, jumped on his mea culpa, calling it "just the latest example of the culture of corruption that pervades the Republican-controlled Congress, which ignores the needs of the American people to serve wealthy special interests and their cronies." In one way, this is partisan claptrap: the last congressman to leave under a similar cloud was a Democrat: James Traficant, who was expelled from the House in 2002 after being convicted of

bribery and tax evasion. On the other hand, Republicans, conscious of their Christian evangelical base, tend to preach a sterner morality, which means they are more open to accusations of hypocrisy.

And the “ethics cloud” hanging over the Republicans is hardly a figment of Mrs Pelosi's imagination. Bill Frist, the Senate majority leader, is under scrutiny by the Securities and Exchange Commission, for some well-timed stock sales; Tom DeLay, who has “temporarily” stepped down as House majority leader, is facing criminal charges in Texas of campaign-finance abuse; Michael Scanlon, a former spokesman for Mr DeLay, pleaded guilty last week to bribery; David Safavian, a top White House procurement official, has been charged with perjury and obstruction of justice; and Scooter Libby, Dick Cheney's former chief of staff, has been indicted for perjury.

Worse may be to come. Mr Cunningham has agreed to co-operate with the authorities in their continuing investigations; so, too, has Mr Scanlon, who was a partner of Jack Abramoff, a supremely well-connected Washington lobbyist indicted earlier this year for wire fraud in a case involving the purchase of a Florida casino boat company. Mr Abramoff's dealings with Indian tribes and Washington politicians are being investigated by both the Justice Department and the Senate Indian Affairs Committee—and prosecutors are said to have their sights on several Republicans. Fortunately for the embattled White House, there are apparently some Democrats in the target zone, too.

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Economist.com WORLD NORTH AMERICA

Illinois politics

A one-party state's weak link

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A struggling governor may be saved by death-wish Republicans

THE good news for Illinois Democrats is that they do not need their governor, Rod Blagojevich, to be a star. The state party already has plenty of those: from Richard Daley, the mayor who has helped to restore Chicago's lustre, and Rahm Emanuel, who heads the national party's congressional campaign committee, to Senator Barack Obama. The bad news, however, is that state Democrats do need Mr Blagojevich to hang on to the governor's seat in next year's election.

Alas, he has spent the past three years giving the Republicans cause for hope. The governor's latest approval rating languishes at a George-Bush-like 38%, with 57% saying they disapprove of his performance. Although Mr Blagojevich has shown signs of regaining his footing, he has a long way to climb with many voters. This week, his most likely Republican challenger, Judy Baar Topinka, the state treasurer, tossed her hat into the ring, promising she would “take out” Mr Blagojevich.

The governor's troubles began right after he took office, when he tried to boost his own image at the expense of party leaders in the state legislature. That was foolish in a state famous for its clubby politics. He then fell into a disastrous row with his father-in-law, Dick Mell, a powerful Chicago alderman who had helped to get him elected. The mutual recriminations shone public spotlights on business associates that each man would have preferred to keep in the shadows.

The governor has also opted to keep living in Chicago, rather than 200 miles south-west in the state capital, Springfield. That is partly because his youngest daughter was born shortly after he took office. In another state this might mark him as a devoted family man, tied to his hometown. But in downstate Illinois's hard-hit regions, where many voters resent Chicago, it has not gone over well.

Mr Blagojevich has done better when it comes to policies, especially in health care. When the country was running short of flu vaccines last year, the governor scored points by arranging to buy vaccines for the inhabitants of his state from Europe. He also set up a scheme to let old people pool resources and buy medicines at a discount. Last month he signed into law a plan to extend comprehensive health care to every child in the state. Illinois is the first state to try anything like it.

But critics argue that the governor is better at thinking up popular ideas than at nailing down the details and implementing them. Last year's flu-shot deal with Europe led nowhere, because the federal Food and Drug Administration stalled approval of the vaccines. Few old people have signed up for Mr Blagojevich's drugs scheme. And the press release announcing the governor's signing of the child health-care bill was longer than the bill itself.

Ms Topinka, if she wins the Republican primary, will poke holes in some of Mr Blagojevich's other “successes”. For instance, he likes to stress that, although he is a Democrat, neither income taxes nor sales taxes have gone up on his watch. But he has used assorted fees, and fiddled the

accounting for the state employees' pension fund, in order to fill gaps in his budgets.

Yet however hard she hits, Ms Topinka will have a tough time uniting Republicans behind her. Conservatives call her “Topinkojevich”: they dislike her moderate views on abortion and gay rights, and they claim she is part of the same political establishment as the governor. She alienated them further by blaming their ideological rigidity for the state party's dismal showing in the 2004 elections. She has a point: the die-hards selected a right-wing out-of-stater, Alan Keyes, to be their candidate for the Senate. But it may not have been wise for her to say: “I swear these people have a death wish.”

Paul Green, a political scientist at Roosevelt University in Chicago, reckons that Mr Blagojevich will thus be hard to beat. When he won the 2002 election, “he was outstanding on the stump,” says Mr Green. “His numbers will improve again once he's running against another person, rather than against himself.”

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Cattle rustling

Ears and all

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AP

Calling John Wayne, urgently

JOE LINDSEY, a cattle-rancher in north-west Texas, considers himself lucky. Last year thieves swiped about 20 of his cattle while he was out late at the local rodeo. He called the sheriff and the beasts were recovered the next day after an investigator recognised their brand. “One hundred years ago, [the ringleader] would have been hung from a lamp-post,” says Mr Lindsey ruefully.

Texas is used to dealing with rustlers: it has some 14m head of cattle, more than any other state. Specially commissioned Texas Rangers help track down the bad guys. Even so, rustling has recently been on the rise. Larry Gray of the Texas and Southwestern Cattle Raisers Association, which helped recover Mr Lindsey's cattle, says that recoveries this year in Oklahoma and Texas are likely to be at least double last year's total of $4.2m (a figure that includes horses and equipment, as well as cattle).

The boom in rustling owes much to beefy prices. Prices for fatted cattle have risen by as much as 25 cents per lb in recent years. That may not sound much, but the animals weigh more than half a ton at slaughter—so a 1,200lb beast can fetch an extra $300 nowadays, putting its price-tag up to $1,000. Jim Gill of the Texas Cattle Feeders Association says that several years of drought have helped push prices up.

Rustling is not quite like the old days, though. Then, the cattle ambled away with the good guys in hot pursuit on horseback. Nowadays rustlers are motorised, loading their catch on to trailers. Rustlers are especially tempted by weekend ranchers, who spend most of their time in Dallas or Houston.

Branded cattle are much easier to recover, says Mr Gray, who compares the brands with car number-plates. One high-tech answer is radio tags. But if the tags are on the ear, says Mr Gray, they won't be much use: rustlers can just cut them out. And it is not just the animals that modern-day ranchers have to worry about. The *Washington Post* recently reported that a Maryland farmer was robbed of $75,000-worth of semen from the bulls that he was planning to sell next

year at a Colorado livestock show. Now there's a rustler with balls.

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Lexington

The end of ideology

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From The Economist print edition

On the exhaustion of political ideas in the Bush era

FORTY-FIVE years ago one of America's great public intellectuals, Daniel Bell, published a big, fat book with a big, bold title: “The End of Ideology: On the Exhaustion of Political Ideas in the Fifties” argued that the great ideologies that had dominated intellectual life since the Victorian era—Marxism, liberalism and conservatism—had all lost their power to grip people's minds and stir their emotions. Few liberals any longer believed in huge social engineering projects; and few conservatives believed that the welfare state was the second-to-last stop on “the road to serfdom”. The future lay with technocrats rather than ideologies, with pragmatists who prefer itty-bitty ideas to bold blueprints.

Mr Bell could hardly have been more unlucky with his timing. If the 1950s was a graveyard of ideologies, the 1960s proved to be a breeding ground. Presidents Kennedy and, particularly, Johnson revived “big-government liberalism”. The New Left embraced Karl Marx's uncompromising critique of capitalism (albeit with more emphasis on dippy Hippie counter-culturalism than on the proletarian revolution) while the New Right hollered for cowboy capitalism and a return to moral values.

The past 45 years have been shaped by the interplay between these three ideologies. Big-government liberals introduced an American version of the welfare state and affirmative action. New-left activists took over the universities—first through sit-ins and then through tenure. And Hayek-reading conservatives marched to the polls behind Barry Goldwater (unsuccessfully) and Ronald Reagan (triumphantly). But have Americans finally had enough of ideologies?

The clearest evidence for exhaustion lies with the most successful ideology of the past few

decades—conservatism. George Bush has been a surprisingly ideological president. He introduced swingeing tax cuts, shifting his justification, as only a true ideologue can, from returning the surplus to stimulating the economy. He has tried to use government to reinforce traditional virtues such as marriage. And, in the wake of September 11th, he threw his support behind the neo-conservative project of using American power and principles to remake the Middle East.

But this ideological activism is producing a widespread weariness with conservative ideas. Mr Bush's enthusiasm for cutting taxes while using government to promote virtue has left the impression that conservatism is a recipe for both fiscal irresponsibility and government meddling. And neo-conservatism has been mugged by reality in the backstreets of Baghdad.

Moreover, the exhaustion with big conservative ideas does not look like being replaced by an enthusiasm for big liberal ideas. The American left is certainly in a frenzy at the moment. But this ideological frenzy is driven more by hatred of the status quo—a hatred that has the “Bush-Cheney junta” as its epicentre but extends outward to include Wal-Mart and “Big Pharma”—than by any coherent vision of the future. Granted, most leftists cling to the flotsam and jetsam of old ideologies, from support for oppressed minorities to enthusiasm for more government spending on health care. But big-government liberalism lacks the coherence it had in the 1960s. It is a measure of the American left's ideological exhaustion that, during the last election, it was reduced to rallying around Howard Dean, a man who supported gun rights and fiscal prudence.

What about the centre? Back in 1992, Bill Clinton came to power with a compelling vision for updating liberalism. Drop shop-worn ideas about protectionism and industrial policy. Accept the wealth-creating power of globalisation. But prepare people to deal with increased competition by investing in education and training. This remains intellectually plausible. But it has lost much of its grip on the imagination. September 11th has raised difficult questions about the underside of globalisation. The left has embraced protectionism with renewed fervour. And the Democratic Party as a whole has never reconciled its enthusiasm for investing in education with its alliance with the most reactionary force in the educational world, the teachers' unions.

The age of the pragmatic Hillary McCain

This exhaustion with big ideas is going hand in hand with a growing enthusiasm for pragmatism. The two most prominent candidates for the 2008 presidential election—Hillary Clinton and John McCain—are both willing to mix and match ideas from across the political spectrum. Mrs Clinton has broken with her party's ideological commissars on everything from Iraq (she has generally backed Mr Bush) to abortion (which she describes as “a sad, even tragic choice”). She has formed public partnerships with conservatives such as Rick Santorum (on protecting children from sex and violence in the media) and Newt Gingrich (on health-care reform).

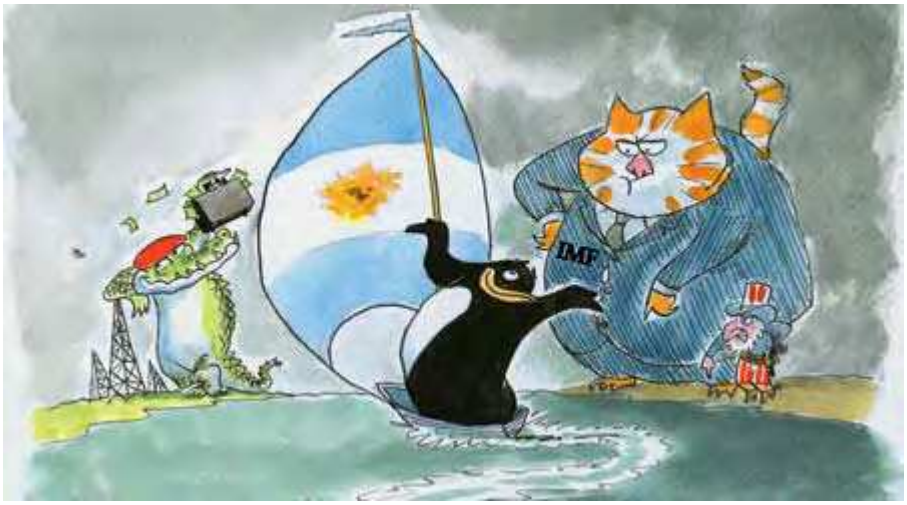
Mr McCain is even more of a maverick: more hawkish on Iraq than Mr Bush but also more left-wing on everything from campaign finance to taxation. He shares Teddy Roosevelt's worries about the creation of a decadent American aristocracy (hence his support for retaining inheritance taxes); and he relishes doing battle with his party's self-appointed ideological guardians (his chief of staff recently told the *Boston Globe* that it is as pointless to respond to Grover Norquist, an anti-tax crusader, as it is to respond to “some street-corner schizophrenic”).

This is not to say that America is now free from ideological temptation. The Democrats are searching for what consultants call “a narrative” to stitch together their policies. Washington is full of think-tanks committed to producing the next big idea and ideological zealots determined to stamp out heresy. But the public seems to be losing patience with airy-fairy ideological crusades—and growing ever hungrier for down-to-earth pragmatism. The electoral rewards for the party that feeds that hunger could be considerable.

Argentina

After Lavagna, an uncertain tilt towards populism

Dec 1st 2005 | BUENOS AIRES
From The Economist print edition

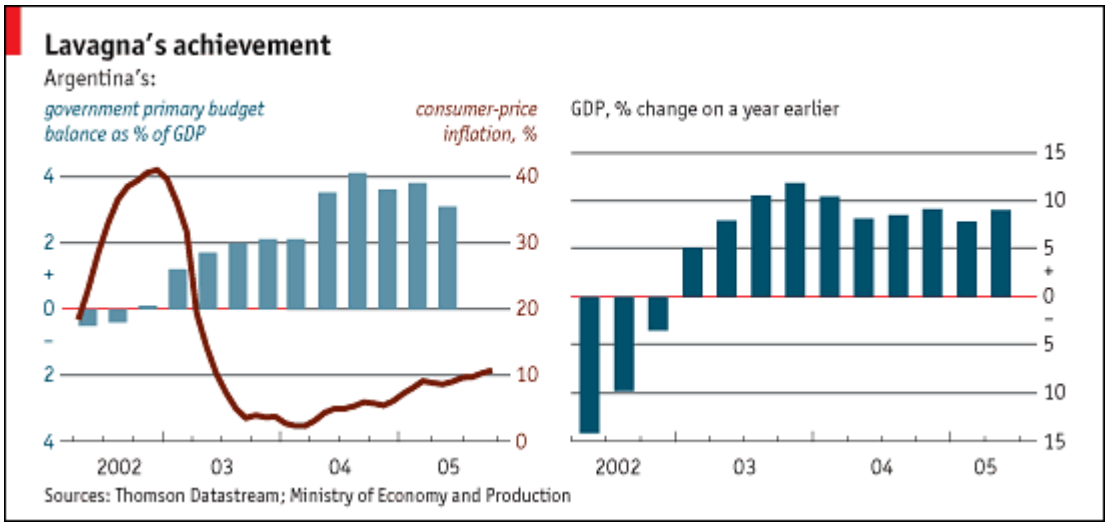


The sacking of a successful economy minister suggests a turn away from the IMF and towards Chávez's Venezuela

OSTENSIBLY, he had gone to see the president about export taxes on leather. But Roberto Lavagna, Argentina's economy minister since April 2002, may not have been too surprised on November 28th when Néstor Kirchner sacked him as part of a cabinet reshuffle. Their relationship had been rocky for months. Mr Lavagna had been appointed by Eduardo Duhalde, Mr Kirchner's predecessor, a fellow-Peronist but now a foe. When he disagreed with the president on policy, he did not conceal it. His fate was probably sealed on November 22nd, when he accused the planning ministry—whose head, Julio de Vido, is Mr Kirchner's closest aide—of allowing contractors to overcharge the government for building roads.

Mr Kirchner is in a stronger political position since a congressional election in October, in which his candidates defeated those of Mr Duhalde. Mr Lavagna's departure may mark a turning point for Argentina—and a move further away from market economics and towards populism. The new minister, Felisa Miceli, who had been president of the state-owned Banco de la Nación, is a disciple of Mr Lavagna but has none of his political clout.

Mr Lavagna can claim much of the credit for the speed and vigour of Argentina's recovery from its debt default and devaluation of 2001-2 (see chart). He took office at the darkest moment, when Argentina appeared poised for hyperinflation. By imposing fairly tight fiscal and (at first) monetary policies, he stabilised prices and the exchange rate. High prices for Argentina's commodity exports, devaluation and the existence of much idle capacity in the economy did the rest.



The minister was no neo-liberal. He was tough both with the IMF and with holders of Argentina's defaulted bonds. But unlike Mr Kirchner and his clique of advisers from his remote Patagonian province (dubbed “the penguins” by Argentines), Mr Lavagna knew and understood the financial world. His technical competence gained the grudging trust of investors, local businessmen and outsiders. He clashed with the president over how to tackle a recent surge in inflation, which is likely to end the year at 12%. With it has come a rash of strikes.

Some analysts had expected Mr Kirchner to tack towards the centre after the congressional election. The IMF and investors have a long wish-list. It starts with allowing public utilities to raise their tariffs (many have been frozen since 2002). It includes re-opening this year's debt deal to bondholders who had rejected its terms. The best way to tackle inflation would be to allow the peso to appreciate.

This seems unlikely to be Ms Miceli's agenda. She recently accused the IMF of “frighteningly simplistic theories” of economics, and dismissed concerns about inflation as “an argument to maintain low wages.” Many analysts now expect the government to impose further price controls. If so, local business may start to fall out of love with Mr Kirchner: the Buenos Aires stock-exchange index fell 5.9% in the two days after Ms Miceli's appointment.

“This is the real Kirchner,” said one insider. “He was always going to wait for the debt restructuring and the elections but now he's going to implement his ideals.” The other cabinet changes also point leftwards. Jorge Taiana moves up to the top job at the foreign ministry where he was the number two. Mr Taiana belonged to the Peronist Left in the 1970s. The new defence minister, Nilda Garré, had links to the Montonero guerrillas in that era. Ms Garré had been the ambassador in Caracas. Like Mr Taiana and Mr de Vido, she favours stronger ties with Hugo Chávez's leftist government in Venezuela.

That suggests that Argentina might tilt away from friendship with the United States and engagement with the IMF and towards Mr Chávez. The government has been paying its debts to the IMF. But repayments are due to rise sharply over the next two years. The government would like an agreement to roll over some of the $4.4 billion due in 2007—but without the reforms the Fund is likely to insist on. At last month's Summit of the Americas, which Argentina hosted, Mr Kirchner asked for George Bush's support on this. The American president was non-committal. Argentina ended up siding with Venezuela at the summit in opposing any resumption of talks on an American-backed Free-Trade Area of the Americas.

Since the summit, Mr Kirchner has continued to court Mr Chávez. He visited Caracas last month,

where he apparently obtained a promise that Venezuela will invest more of its oil windfall in Argentine bonds (of which it already holds almost $1 billion). That might just allow Mr Kirchner to escape an IMF agreement. In exchange, Mr Chávez may revive a request to buy a nuclear reactor from Argentina—something which would alarm the United States because of his friendship with Iran. Mr Kirchner brought a handful of nuclear engineers on his trip to Caracas.

Such a realignment may not happen. In politics, unlike motoring, when preparing to turn right, signal left, was the advice once famously proffered by Juan Perón, the founder of the movement which Mr Kirchner leads. But having cast off the reliable Mr Lavagna, Argentina's president has embarked on a more uncertain course.

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Venezuela's legislative election

Technical hitch, political stand-off

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Hugo Chávez may be winning influence abroad (see article), but at home he looks set for the hollowest of electoral victories

AP

Hugo Chávez plans to have the last laugh some time after 2013

Get article background

HAD it not been for the almost accidental discovery of an anomalous piece of software, Venezuela's parliamentary election might have passed off on December 4th in relative normality. True, fewer than 30% of the electorate might have voted, and there would have been the usual cries of fraud. The opposition has grown hoarse over the past couple of years alleging malpractice by the electoral council (CNE), which is supposed to be independent but is dominated by supporters of Hugo Chávez, Venezuela's leftist president. Nevertheless, all but the radical fringe and the no-hopers were planning to take part, albeit under protest.

Less than a week before the poll, six parties, representing nearly half the opposition candidates, pulled out. They included the largest, Democratic Action (AD), the social democrats who dominated Venezuela's politics in 1958-98. They held 23 seats in the outgoing 165-member national assembly. The party has never before boycotted an election (even taking part under a military dictatorship). Justice First, an up-and-coming centre-right party, which like AD is strongly committed to electoral politics, followed suit after much agonising (though whether all its candidates would do so was not clear). The government was torn between jeering that the boycotters were trying to disguise a lack of support and alleging an “electoral coup-plot” financed by the United States.

The pull-out was prompted by a routine audit of electronic voting machines, watched by international observers. An opposition technician discovered a file that allowed the voting machine to store the sequence of votes cast. Polling stations were also to have electronic finger-print machines, so each vote could, in theory at least, be matched to an individual. That the ballot might not be secret matters in a country in which the government has used voting data to deny

jobs and government services to opposition supporters.

The CNE suspended the audit. The opposition parties held an urgent meeting with observers from the Organisation of American States (OAS). According to a diplomatic source, the head of the OAS delegation told José Vicente Rangel, Venezuela's vice-president, that the opposition would pull out unless the finger-print machines were withdrawn. On November 28th, Jorge Rodríguez, the CNE's president, said this would happen.

But the message from the opposition's activists was overwhelming: their voters would not turn out for an election organised by the current electoral authority. So the opposition leaders called for the election's postponement.

Much is at stake. Mr Chávez's supporters held a slim majority (of 86 to 79) in the outgoing assembly. Opinion polls show that the president still has the support of around half of Venezuelans, though that is down from 70% earlier this year. A complicated electoral system means that even a bare majority of the popular vote could translate into four-fifths of the seats in the assembly. With that kind of majority, Mr Chávez would have removed the last remaining constitutional restraint to the socialist system he now espouses.

The president has been in power since 1999. He will seek a new six-year term next December. His supporters plan to reform the constitution to allow him to stand for yet further terms. Where the opposition goes from here is less clear. The government's taunts are not without substance. Voters have grown tired of the opposition's squabbling, lack of leadership, inability to present clear policies and its tactical blundering. Some propose civil disobedience, though that could play into Mr Chávez's hands. If the election goes ahead, a return to parliamentary business as usual looks unlikely.

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Economist.com WORLD LATIN AMERICA

Peru's alpaca industry

A shaggy business

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Misguided mercantilism, or self-help

Reuters

A question of breeding

AS HER family has for generations past, Juana Vásquez gets up before dawn to move her herd of alpacas, now more than a thousand strong, from their pens to pasture on the high plains near Puno, some 4,400 metres (14,400 feet) above sea level in southern Peru. As it has been since Inca times, the shaggy alpaca, a South American cameloid with fine, long wool, is the economic mainstay of Ms Vásquez's village of Pinaya. But Ms Vásquez is not a typical alpaca herder. She attended a nearby university, and is trying to turn subsistence herding into a viable business.

That effort matters for Peru. The alpaca is a cultural symbol—its much-prized cousin, the vicuña, is on the country's national shield. It also holds the key to helping more than 150,000 of the poorest Peruvian families.

Peru has some 3.5m alpacas—80% of the world's total and, you might think, a dominant market position. Yet the country's Association of Exporters, a business lobby, backed by several congressmen, wants to ban export of live alpacas. As a result of such exports, there are now herds of around 60,000 alpacas in both Australia and the United States, with smaller ones elsewhere. Thanks to its ability to carry out genetic improvement, in 20 years Australia could overtake Peru as a producer of alpaca fibre, the association claims.

That is improbable. If true, it would be an indictment of the mismanagement of the industry in Peru. Ms Vásquez's grandmother tended alpaca herds for a near-feudal absentee landowner. In the 1970s, a military government expropriated Peru's large estates. Pinaya formed part of a vast co-operative, appropriately called *La Gigante*. That collapsed a decade ago, its herds and land split up among families.

Dozens of official reports, plans and national strategies, and promises of technical help, have failed to overcome a vicious circle: most herders are poor, have too few animals, and cannot afford the improvements in breeding, pasture management and shearing needed to raise fibre quality and yield. The National Council of South American Cameloids, a government body, claims that a herd of around 300 is needed to cover a family's basic needs. But the average herd numbers just 21 animals, yielding only $600 per year in fibre.

“No one is going to help us change this industry,” says Ms Vásquez. “If we want things to be better, we need to do it ourselves.” Her extended family have gathered their animals into a single, profitable herd. She is taking part in a government-backed pilot project to improve breeding. Several of her animals have produced wool as soft as that of the vicuña.

Her village has joined forces with others to sell in bulk to the three wool processing firms in the southern city of Arequipa, in an effort to expand their bargaining power. The firms, recognising that they have done little to help the herders, have set up an institute to deal directly with them, cutting out middlemen. Rather than banning live exports, perhaps Peru should work harder to make the most of its natural and cultural heritage.

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Economist.com WORLD LATIN AMERICA

Chile

Pinochet's unhappy birthday

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From The Economist print edition

AP

Support for the dictator dwindles as a trial moves a little closer

Get article background

SINCE he returned to Chile in 2000, after 17-months under arrest in London, General Augusto Pinochet has twice been charged by his country's courts for human-rights abuses. On each occasion, the Supreme Court declared him mentally unfit to stand trial. It was, it seemed, too late to bring the former dictator to book for his regime's crimes.

Maybe not. General Pinochet has few friends nowadays, but he had hoped to have some company to celebrate his 90th birthday on November 25th. Instead, he found himself under house arrest and facing two new sets of criminal charges. One relates to secret overseas bank accounts and the other to the disappearance of six of the dictatorship's opponents in 1974 and 1975.

It is the first set of charges that have shorn General Pinochet of most of his political support, shattering the myth that he had not profited from power. He has been linked to foreign bank accounts containing some $26m; he is also charged with tax evasion and use of false passports. His wife and younger son have been charged, too, as accomplices to tax evasion. With a presidential election due on December 11th, neither of the two conservative candidates has shown any sympathy for his plight.

More charges may follow, as investigators seek the origins of the general's wealth. These may include commissions on the sale of arms to Croatia in the early 1990s in defiance of a UN embargo. Prosecutors have always maintained that, despite his age and physical ailments, General Pinochet is mentally fit for trial. The judge investigating the bank accounts agrees. The general showed “normal behaviour and a lucidity that gives the court no concern that he may not understand its questions,” he said. Could he at least face trial for tax evasion? The Supreme Court just might change its position on the general's health. Even so, it may not be long before mortality

defeats justice.

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China's far west

Under the thumb

Dec 1st 2005 | URUMQI AND YINING
From The Economist print edition

In dampening resentment, nothing succeeds like success

TO CHINESE cadres, the town of Yining is an advertisement for their country's six-year-old policy of boosting development in lagging western regions. Executive centres and multi-storey shopping malls sprout along the pavements. Fleets of luxury cars, and trucks bearing coal, weave their way along the roads. By day, traders from across a stunning spectrum of ethnicities—Han Chinese, Uighurs, Kazakhs, Russians, Tajiks—gather in the markets to swap goods and gossip about their travels in Central Asia; by night they socialise over a game of pool or hit the parks for a spot of outdoor dancing.

Situated in Xinjiang, China's largest, westernmost province, this once sleepy backwater is becoming increasingly known for its prosperity and cosmopolitanism. The visitor has to journey to Yining's more secluded rural outskirts to hear murmurs of the town's dark past. Twice in 1997, Uighur and Kazakh Muslims launched separatist riots here, provoking a merciless response from the Chinese government. Several people were killed and many more injured. “I'm still afraid sometimes,” confides one Kazakh. But for most of Yining's residents, the memory of those days has faded, paling into insignificance before the promise of quick riches and peaceful stability.

China's goal is not just to replicate the boom of its coastal areas. It wants to tame Xinjiang, its wild western frontier. Since January 2000, when China launched the “great development of the west” (often referred to as the “Go west” policy), it has been clear that there is more to this than simply boosting growth in China's economic backwaters. It is shorthand for a policy of tightening central control over remote, far-flung territories and assimilating them into China proper. Xinjiang

(literally meaning “New Frontier”) was the most recalcitrant region of the lot.

A chasm of language, culture and religion lies between the Han Chinese, who make up more than 90% of China's population, and Xinjiang's Uighurs, Kazakhs and Tajiks. The region's brand of Islam, heavily influenced by Sufi mysticism, sits uncomfortably with the atheism espoused by the Chinese Communist Party. Xinjiang is periodically roiled by local uprisings set off by supporters of independence for the region—“East Turkestan” as the separatists call it, rejecting the Chinese name for their territory.

In 1945, a rebellion led to the creation of a short-lived independent republic in the Yining region close to the Soviet Union. But in 1949, this was abolished after the Russians told the Uighurs to co-operate with Mao. An earlier East Turkestan, in 1933, had lasted only a few months. Since 1949, Chinese rule has never been seriously challenged, although the authorities say there were more than 200 “terrorist incidents” between 1990 and 2001, causing the deaths of 162 people. The most recent unrest of any significance occurred in 1997, with the Yining riots. Three bus bombings in Urumqi and an explosion in Beijing that year were also blamed on Xinjiang separatists.

Calls for independence are still heard among members of the Uighur diaspora. Rebiya Kadeer, a Uighur businesswoman and former political prisoner who was sent into exile in America by China in March, has become a prominent cheerleader for the cause. She has been labelled a “terrorist” by the Chinese government and her family members in Xinjiang have been harassed by the police. Amnesty International says the government's accusations “have not been backed up with any evidence” and appear to be aimed at discrediting Ms Kadeer and her associates as part of a broader political crackdown in Xinjiang.

AFP

But at the beginning of October, official celebrations of the 50th anniversary of the founding of what China calls the Xinjiang Uighur Autonomous Region passed without disruption. Tight security for the events reflected the authorities' continuing fear that, though subdued, separatists could still pose a security risk. Yet China plainly does not worry that Xinjiang might descend into a Chechnya-style conflict. And for all its warnings of terrorist dangers, it appears convinced that, just as rapid economic growth has bought respite from radical political demands in other parts of China, the same formula could well work in Xinjiang.

Xinjiang is a prize worth keeping for more than just reasons of national pride. As China searches for fuel to power its economic development, its gaze has inevitably turned westwards to the province's rich endowments of coal, oil and natural gas. Driving along the edge of the vast Taklamakan desert, the vista is of endless tracts of wells and drills. Official hyperbole makes it hard to tell how much oil and gas Xinjiang really has. But the province is a focal point of

exploration by China's largest oil and gas producer, the China National Petroleum Corporation (CNPC).

The discovery of Xinjiang's Kela II natural-gas field laid the foundation for a 4,000km (2,500-mile) pipeline that began pumping gas from Xinjiang to China's east coast last year. Three years ago, the oilfields of the Junggar basin, in northern Xinjiang, broke the annual output record for Chinese oilfields by crossing the ten million tonne mark. In 2004, the Tarim basin oilfields chipped in with five million tonnes.

With its borders with Kazakhstan, Kirgizstan, Tajikistan and Pakistan, among others, Xinjiang is also China's principal gateway to the energy reserves of Central Asia. Chinese oil experts are frequent visitors to Almaty and Tashkent, where they hammer out some of the biggest deals in the global energy market today. The first phase of an oil pipeline stretching from Kazakhstan to the border town of Alashankou, in Xinjiang, is soon to be completed. The two countries are also exploring the feasibility of a natural-gas pipeline.

To protect these interests, China has no qualms about threatening and using force to keep militant Muslims under control. Religious schools have been banned altogether, and residents report that the prohibition has been completely effective. China has won support for its efforts from fellow members of the Shanghai Co-operation Organisation, a security and commercial forum which also includes Russia, Kazakhstan, Kirgizstan, Uzbekistan and Tajikistan. “The government has such a chokehold over us today,” mourns one local imam, “that we can't even think about making war.”

China has also encouraged the migration of ethnic Han Chinese into Xinjiang. Although there is no irrefutable evidence of a deliberate attempt to dilute Xinjiang's potentially restive Muslim population with this influx, this is precisely what has happened in many urban areas. Once forming the vast majority of the region's population, Xinjiang's minorities had slipped to a rough parity with the Han even before the “Go west” policy began.

Getting rich together

Critics of China's western development strategy argued that it would simply encourage a further influx of Han, who would collar all the best jobs and dominate local markets completely, to the detriment of the local peoples. There would be growth, certainly, but its fruits would belong to the enterprising new immigrants, while the province's original residents would remain impoverished. But this has not been the case. True, the Han have come in and enriched themselves. But one of the main reasons many local Muslims are loth to disrupt the new order is that significant numbers of their ranks too have grown fat on the spoils.

As formerly obscure towns experience a boom powered by trade, mining and a rocketing tourist industry, Xinjiang's Muslims are better off, in material terms, than they have been in a long time. Wealthy Uighurs own a fair share of the sleek Landcruisers plying the streets of Urumqi. In the rural areas of northern Xinjiang, such as Buerjin, the Kazakhs still tend to their cattle and sheep. But outside the yurts, there now stand gleaming new motorcycles and even cars. A crucial factor behind Xinjiang's avoidance of large-scale strife is that life as a Chinese subject, particularly compared with many other parts of Central Asia, seems to some at least to have its advantages.

Development is by no means a cure-all. Although it helps create a relatively content middle class, as it has elsewhere in China, it also exacerbates social divisions that could store up problems for the future, should growth falter. The divide between urban and rural communities is one looming challenge. Energy and tourism aside, industrial growth is slow enough to leave many of the province's natives by the wayside. Much of Xinjiang is still rural and even the most impressive cities have a tendency to give way suddenly to pastures and mud-houses, where six-person families live cramped in a single room (ethnic minorities in Xinjiang are subject to less stringent family planning regulations than families in Han areas of China).

This growing gap between rich and poor in Xinjiang could provide new fuel for religious and ethnic hatred. While a number of Xinjiang's Muslims have benefited from the Great Leap West, virtually all the losers are Muslim. In spite of stricter border control, access to weapons and even military training from *madrassas* in neighbouring Pakistan remains an option; in August, several Muslims were indicted for smuggling firearms from Pakistan into China through Xinjiang. With so many non-Han Muslims feeling disenfranchised, to say nothing of the fear amongst neighbouring Central Asians of being reduced to the near-abroad satellites of an expanding giant once again, there is always a chance that the development of China's west might yet be accompanied by a return to 1997-style violence, with bombs going off in Beijing.

All of which, if history is any guide, will probably do very little to deter a state beginning to flex its muscles. Like the development of America's west, the development of China's has seen native peoples who dared to resist crushed or driven into exile. But however brutal the pacification of Xinjiang, China has so far managed to prevent it from degenerating into a security nightmare.

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Economist.com WORLD ASIA

China

Not very slick

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Once again, the government covers up a disaster, and gets caught

IT WAS, insisted a top provincial official, a “white lie”. But government attempts to suppress news of an 80km (50 mile) toxic chemical slick creeping along a big river in north-eastern China have unleashed a torrent of criticism by the country's normally reticent media. No cases of poisoning have yet emerged, but the dangers of a bureaucracy steeped in a culture of secretiveness and divided by internal rivalries have been glaringly exposed.

As China found during an outbreak in 2003 of SARS, an often fatal respiratory disease which threatened to spread out of control thanks to an attempted cover-up, these shortcomings risk undermining all efforts to project the country as a responsible emerging power. On November 26th, the foreign minister, Li Zhaoxing, was shown on television apologising to Russia, whose border city of Khabarovsk the pollution will reach soon (see map in article). But for nine days after the slick was generated by a factory explosion, China had made no move to warn its neighbour.

Although some observers hoped at the time that SARS—the first big crisis faced by the then newly installed leadership of President Hu Jintao and his prime minister, Wen Jiabao—would encourage greater openness by government officials, little has changed. After the accident, at a petrochemical plant in the north-eastern city of Jilin on November 13th, sent 100 tonnes of poisonous and potentially cancer-causing benzene and nitrobenzene gushing into the Songhua river, local officials admitted five deaths caused by the blast but denied that the river had been polluted.

In the downstream city of Songyuan, officials partially shut down tap-water supplies drawn from the river as the slick approached. They said nothing about pollution—only that “pipe repairs” were needed. Luckily, however, most of the city's water comes from wells. Five days downstream, however, lies Harbin, the capital of Heilongjiang province, which largely depends on the river for its water.

Heilongjiang and its upstream neighbour, Jilin province, to which Jilin and Songyuan cities belong, have long bickered over pollution control on the dirty Songhua river. This inter-provincial rivalry may have exacerbated the problem. The Jilin authorities did not notify Heilongjiang of the threat until the slick reached Songyuan, five days after the explosion. But officials in Heilongjiang were nervous that the news might spark panic among their capital's residents, according to state-owned media. Two days before the slick reached Harbin, they announced that tap-water supplies in the city would be suspended, but as in Songyuan the reason given was “maintenance”.

A few hours later, the city changed its mind and gave the real reason. But it was not until November 23rd, as the chemicals reached the city, that the State Environmental Protection Bureau in Beijing broke its silence about the disaster. The prime minister visited Harbin on the 26th, where he promised a full investigation and ordered timely reporting of the slick's progress. Also that day, China finally got round to briefing UN agencies in Beijing.

China's handling of the crisis does not bode well at a time of unease at the possibility of bird flu—several outbreaks of which have occurred in China—turning into a human pandemic. China has moved aggressively to contain outbreaks of the virus in recent weeks. But bureaucratic tussles between the Ministry of Agriculture and the Ministry of Health, as well as the pervasive tendency of local officials to cover up bad news, could make surveillance dangerously difficult.

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Japan's jellyfish invasion

The invaders

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From The Economist print edition

A netful of trouble for Japanese fishermen

IT WAS meant to be the prime season for salmon, yellowtail and other fish prized in Japan. But recently fishermen off the coast of Japan have as often been pulling in jellyfish: the giant *echizen kurage*, Nomura's jellyfish, which can be over a metre across and weigh more than 150 kilos (330lbs). Their arrival has been a disaster for many fishing communities, breaking nets and gear, crushing the fish catch or spoiling it with poisonous tentacles. Add one more issue to Japan's fraught relations with China.

The jellyfish spawn along the coasts of the East China Sea and the Yellow Sea (see map in article) and some drift towards Japan. It usually takes two months or more for the first to reach the Japanese island of Tsushima, in the middle of the strait between South Korea and Kyushu. This year, however, the jellyfish arrived a month earlier than usual, in August, and in big numbers. In May and June, heavy rains in the basin of the Yangtze river had created an enormous flow of fresh water, and this jet had sluiced the jellyfish towards Japan.

They have since been pushed into the Sea of Japan by a branch of the warm Kuroshio current that is running much closer to land than usual, and have spread up Japan's west coast and even through the Tsugaru strait between Japan's main island, Honshu, and northern Hokkaido into the Pacific Ocean. Exceptionally, many jellyfish have also drifted into the Pacific from the south.

No one knows the exact reason for the rise in the jellyfish population, but there are suspicions. One is the development of ports and harbours along the Chinese coast, which has created many more structures to which *echizen* larvae can attach themselves. Another is that the seas off China are choked with nutrient-rich run-off from farms and industry. A third is Chinese overfishing in local waters: with fewer fish, there are more of the kinds of plankton on which the jellyfish feed. A final possibility is global warming. But this is no time for finger-pointing, says Yukihiko Sakamoto, an official at the fisheries agency in Tokyo. Japan is proposing a joint-research effort with China and South Korea to get to grips with these monsters.

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Economist.com WORLD ASIA

Kazakhstan's election

Foregone conclusion

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AFP

Nazarbaev and challenger, Tuyakbai

Don't wait up for the result

IN AN election campaign notable for its dearth of glamour, the slick and so far only television advertisement run by the incumbent, President Nursultan Nazarbaev, does stand out: it shows Kazakhstan's leading businessmen declaring that “we entrepreneurs have made our choice” and one by one proceeding to praise the enormous economic successes of the country in snappy soundbites. They then all shake Mr Nazarbaev's hand and line up for a group photo with him.

The image of Kazakhstan's political leader standing shoulder to shoulder with the country's business elite is powerful. It is supposed to convey the message that Kazakhstan is on the right track and needs continuity. In fact, there is little doubt that the authoritarian 65-year-old Mr Nazarbaev, who has been in office since before independence in 1991, will win re-election on December 4th for another seven-year term. Whether the elections will be free or fair is another matter. But, say local experts, there is little chance of a “colour revolution”, as seen in other former Soviet republics—Georgia, Ukraine, and Kirgizstan—over the past two years. All were triggered by rigged elections.

Most revolutions have their origins in poverty and people's despair over not being able to improve their lot. In Kazakhstan, poverty stands at 12%, according to the World Bank, which is high but much lower than a few years ago. Kazakhstan's oil-driven economy has been booming over the past six years, growing at rates of around 10% a year. Oil production has more than doubled and is scheduled to triple to over 3m barrels per day by 2015, turning Kazakhstan into one of the world's biggest oil exporters.

High oil prices have obviously played a role, as have economic reforms and success in attracting foreign investment. Jean Lemierre, head of the European Bank for Reconstruction and Development, says Kazakhstan should be compared with the East European countries that have joined the European Union, rather than with other former Soviet republics.

But that is only one side of the coin. “People think of what more they could have if there was democracy and no corruption,” says Nurbulat Masanov, a political scientist. Even the support of the business elite, shown as so firm in the advertisement, is not iron-clad. Businessmen depend on the goodwill of the Kazakh leader. Many fortunes have been created since independence, but a virtual absence of legal protection has created a feeling of unease, says Mr Masanov.

Aside from Mr Nazarbaev, there are four other contenders for the top job. Only two, Zharmakhan Tuyakbai of For a Just Kazakhstan, a group that unites most of the opposition, and Alikhan Baimenov of the Ak Zhol (Right Path) party, are considered serious candidates. Mr Tuyakbai, 58, is a former speaker of the Mazhilis, the lower house of parliament, who left his post last year to join the opposition after flawed parliamentary elections. He lacks the eloquence and charisma of Mr Nazarbaev, but is widely viewed as sincere.

Mr Baimenov, 46, is a moderate with particular appeal to Kazakh speakers in this multi-ethnic country. He wants to fight corruption and calls for change, but without upheaval and redistribution of properties. “We don't need chaos,” he says. Neither man has much chance (had Mr Baimenov not run, Mr Tuyakbai might have been a contender), but that is beside the point. The key election is not this one, but that of 2012, when Mr Nazarbaev will (probably) not be running. This time, second place is the one to watch.

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Vietnam

Missing girls

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It will cost the country dear in the long run

IT IS often said that Vietnam today is just like China ten years ago. But in one respect, at any rate, it is catching up faster. Government statisticians have noted an apparent skewing of sex ratios in new-born children. The proportion of boys to girls is already above average, and seems to be rising quickly.

In the first half of this year, for every 100 girls born in Vietnam, there were almost 111 boys. (The normal ratio is around 105.) In some parts of the country, the difference is even more pronounced: in An Giang province, in the Mekong river delta, for example, there were 128 boys for every girl. In 2004, for the first time, there were more men than women in the age bracket during which most Vietnamese marry, from 20 to 24. As today's children grow older, this gap will also grow.

Vo Anh Dung, of the National Committee for Population, which compiled the statistics, says he is not yet sure of the findings, and wants to conduct more research. But other data bear out the trend. The 1999 census reported an overall ratio of 107, ranging as high as 113 in the Mekong delta.

Most couples want at least one boy, since Vietnamese tradition dictates that boys look after parents in their dotage, while girls are considered part of their husband's family after marriage. But as recently as a decade ago, most parents had no way of knowing a foetus's sex. Since then, however, ultrasound machines have become common, while abortion is readily available.

In 2001, the government issued an ordinance banning abortions on the basis of sex. But it is difficult to enforce. Some officials suggest a propaganda campaign to educate the masses about the evils of sexism. But Le Van Dieu, deputy head of the parliamentary commission on social affairs, thinks that baser incentives might be needed. He suggests a tax break or handout of some sort for parents who only have daughters.

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Iraq's insurgency

Are any of them ready to talk?

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From The Economist print edition

Getty Images

As President Bush talks of withdrawing some troops, Iraqis are airing the prospect of negotiation between the government and some—but not all—insurgents

Get article background

UNTIL recently, most Iraqis—Shia Arabs, Sunni Arabs and Kurds—said they wanted a negotiated end to the insurgency, but none seemed to know with whom the Iraqi government or its American backers should or could negotiate. The Americans said they were willing to talk to intermediaries but would not speak directly to gunmen or bombers; in any event, it was for Iraq's government to negotiate the terms of a truce. The Shia-led government, for its part, said it would happily accept a ceasefire with the insurgents but would never forgive acts of violence insurgents had committed against civilians—thus virtually ruling out negotiations. So, with a general election on December 15th, talk of negotiation is in the air. But nothing tangible is in the offing. Or is it?

With pressure building in Iraq and in the United States for some sort of deal to let foreign forces start withdrawing as Iraqi forces gather strength, more overtures are being made. At a recent conference in Cairo, hosted by the Arab League and attended by Iraqis close to the insurgency as well as by Iraqi government representatives, a “right to resistance” against occupying foreign forces was controversially recognised. Iraq's president, Jalal Talabani, said he was ready to speak to any Iraqis, even those bearing arms. And America's ambassador to Iraq, Zalmay Khalilzad, said Americans could talk to any insurgents except extreme Islamists or former loyalists of Saddam Hussein; Mr Khalilzad also said that Mr Bush had given him permission to “open a dialogue” with Iran, which has a (debatable) degree of influence over Iraq's main Islamist Shia parties, over how best to bring stability to the country.

Will any insurgent groups respond to such overtures? And if they did, would they have the clout to make a difference in the country at large? At least four groups—the Iraqi Islamic Army, the 1920

Revolution Group, the Mujahideen Army and the al-Jamaa Brigades—may be preparing delegations to meet Mr Talabani. Despite their Islamist names, they probably represent members of Mr Hussein's army, intelligence service and formerly ruling Baath party. The Americans have long hoped to split such “nationalist” guerrillas from the jihadists who follow such leaders as Abu Musab al-Zarqawi, the proclaimed leader of al-Qaeda in Iraq, who is thought to hate Iraq's Shia majority as apostates and wants to turn Iraq into a puritan Sunni state. By contrast, many Iraqis say that the nationalist insurgents above all want an amnesty, an investigation into recent human-rights abuses, the political rehabilitation of former Baathists and the rebuilding of the old Iraqi army: a guarantee, in other words, that Iraq's former ruling minority will have a secure place in a new and multi-sectarian Iraq.

A lot of Kurds, who have been comparatively safe in their self-ruling northern zone, are probably ready to discuss such demands. So are many in the American administration. But they are unlikely to get the Islamist Shia parties who now dominate Iraq's government to agree—especially the Iran-backed Supreme Council for Islamic Revolution in Iraq (SCIRI), whose bitter hatred of Iraq's old Sunni-led army and ruling party goes back to the eight-year war with Iran which started in 1980 and left perhaps 1m Iraqi and Iranian dead. SCIRI officials sometimes say that the Baathists see negotiations as a tactical ploy to get the Americans out—after which they will try to recover their old place as Iraq's top dogs.

The Shias are particularly twitchy about the prospect of direct talks between the Americans and the insurgents. Some Shias, mindful of Britain's supposed colonial preference for Sunni Arab rulers, suspect that the West is always willing to cut a deal at their expense. Shia leaders also resent the idea that representatives of the superpower might talk directly to Baathist leaders, while overriding the wishes of Iraq's new establishment, which the insurgents denounce as American puppets.

Shia leaders are also infuriated by the Americans' apparent concern to embrace more Iraqi Sunnis and by the growing number of reports in the American press about human-rights abuses committed by their co-religionists in such places as the interior ministry. SCIRI's leader, Abdelaziz al-Hakim, has lashed out at the Americans for reining in the Iraqi security forces during a recent counter-insurgency offensive, saying that American “mistakes” have “cost us dearly”. Indeed, most Shia leaders are reluctant, at present, to contemplate negotiating with the insurgents, for the simple reason that, as a national majority of around 60% to the Sunnis' 20% or so, they think they can win; the rougher the methods, the better.

However, the influence of Shia hardliners may be waning. The Sunni Arab minority, which generally boycotted the last general election in January, is expected to vote in large numbers in the coming election. This should water down the Islamist parties' dominance in government. Politicians like the former interim prime minister, Iyad Allawi, a secular-minded Shia, are courting Iraqi voters who are tired of the new rulers' sectarian zeal, which, they argue, is exacerbating the conflict. Many Iraqi politicians want to improve their government's human-rights reputation by ousting the interior minister, Bayan Jaber, a SCIRI man widely accused of winking an eye at Shia death squads targeting prominent Sunnis. All the same, a pretty tough-minded lot of Shias are still likely to be in charge of the next government.

Even if talks began with some insurgent factions, the violence would not subside fast. The insurgents are fractious. One western intelligence service is said to have counted no less than 74 named guerrilla groups. Drawing a line between nationalists and Islamists is not easy. The Americans, in particular, are hoping to divide the indigenous groups, Islamist or nationalist, from the foreign-led ones, such as Mr Zarqawi's. But some experts, such as Toby Dodge of the International Institute for Strategic Studies in London, reckon that the extreme jihadists are themselves being indigenised: Mr Zarqawi's insurgents may have increased from “the low hundreds to the low thousands” in the past eight months or so, many of them home-grown.

Moreover, even secular-minded guerrillas may be wary of reining in the fanatics, let alone betraying them to the Americans. If real progress is to be made, interlocutors for the insurgents must prove that they can stop violence in specific areas for a set length of time—for instance, by promising not to set off roadside bombs, the insurgents' main weapon, in a certain district for, say, a week. So far, there is no evidence that individual groups have the clout to switch off the insurgency, even in limited areas. That is what the more flexible members of the government may, experimentally, be hoping for. But it is not clear how much influence, after December 15th, they will have.

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Palestine

Primary concerns

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Another setback for Palestinian democracy

SOMETIMES Mahmoud Abbas, the Palestinian president, must wish he could copy Ariel Sharon. The Israeli prime minister, fed up with being undermined by opponents in his Likud party, simply formed a new one with his supporters last month. Mr Abbas, attempting to keep control of his fractious Fatah party, is now facing his equivalent of the uprising that Mr Sharon avoided.

For months there has been wrangling over how to hold primaries to choose Fatah's candidates for the Palestinian parliamentary election due on January 25th. A method seemed to have been agreed. But when members of a younger generation of Fatah leaders scored well in a round of primaries over the weekend in the West Bank—top of the list came Marwan Barghouti, who is serving time in an Israeli jail for planning attacks—some older stalwarts from the group long loyal to the late Yasser Arafat cried fraud. And on November 28th, when voting was taking place in the Gaza strip, which the Israelis vacated three months ago, gunmen attacked several polling stations; there were battles between rival bands of Fatah heavies.

The primaries in Gaza were then put off, it was announced that a round in Jerusalem would be postponed too, and there were even hints that the results garnered so far would be annulled. That provoked an angry reaction from supporters of the victorious candidates. In the end, the Jerusalem voting went ahead—and old-guarders, by contrast, did surprisingly well.

But now Mr Abbas must sort out the mess. It is said that he, along with a panel of Fatah officials, will determine the final lists of candidates. So his attempt to break free of the Arafat style of opaque, backroom governance has failed. No doubt it will be a compromise balanced to please all the factions, but that risks making the party less electable than it might otherwise have been, giving its Islamist main rival, Hamas, an advantage. And even though the presence of Mr Barghouti and his ilk on the list may keep Fatah's vote steady, the party, having lost a chance to shed unwanted baggage, will be as divided in parliament as Israel's Likud has been.

Still, Mr Abbas has little choice. Rumours have been circulating for weeks among Palestinians that the main election, already postponed from its original date in July, would have to be put off again because of Fatah's infighting. Mr Abbas already has precious little to show Palestinians for his first year in office. If he cannot even hold an election, his credibility could pretty much vanish.

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Economist.com WORLD AFRICA & MIDDLE EAST

Saudi women

On their way

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Despite conservative misgivings, Saudi women are starting to find their voice

THIS is hardly Norway, that other oil-rich kingdom, where women must by law fill at least two out of five seats in every big company's boardroom. Yet the election of two women to the 12-strong board of the Jeddah Chamber of Commerce was a giant leap for Saudi Arabia. This week's vote was not only the first in any public institution where women won. It was the first where they were allowed to run.

Until recently, Saudi women were all but invisible, shielded from the eye by obligatory veiling and restricted by a web of discriminatory laws and even more discriminatory customs. Much of that web is still intact, but striking parts are unraveling. In recent years Saudi women have enlivened television screens as announcers, taken to the air as pilots and delighted the reading public as the subtlest unveilers of the kingdom's peculiar private mores.

Women now earn more university degrees than Saudi men, yet their progress faces stiff resistance. One mosque preacher in Jeddah, a port city that remains the country's commercial capital, decried the chamber of commerce vote on the grounds that the equation of females plus money equals corruption. Three of his colleagues issued a *fatwa* declaring that, since taking part in board meetings entails sitting with men and exchanging glances with them, such activities were forbidden to Muslim women. Even to vote for such brazen creatures, they said, would itself be regarded as “partnering in sin”.

Such views still carry weight. Even female preachers, several of whom have become prominent recently, tend to condemn feminists as spearheads of a western plot to undermine Islamic values. Conservative qualms may explain why only a hundred of the Jeddah chamber's 1,400 female members bothered to vote.

Yet the turnout of men—4,000 out of the 21,000 eligible—was not much better. Some admitted to voting for women precisely to challenge conservatives. Even one of those xenophobic lady preachers, in a book about globalisation's dangers, says that Islam should not deny women full political rights. Asked recently if women should have the right to drive, no less a personage than Princess Adila, King Abdullah's daughter, said it was only a matter of time before they will. Her cousin, a senior prince, says it will not be long before they join in elections for state offices, too.

This brightening picture owes less to activism or political pressure than to a more general broadening of minds through exposure of the injustices faced by Saudi women. Recent cases of wife-beating and sexual harassment, for example, have gained unprecedented and sympathetic coverage in the Saudi press. This year's literary sensation, “The Girls of Riyadh”, narrates, by way of a fictional web log, the story of four young women's search for Mr Right, and the poignant twists and turns of their secret affairs. The author, Raja al-Sana, a 23-year-old dentist, has been assailed by conservatives for revealing what should remain concealed. But now, at least, Saudi men can sense what the view is like from inside the veil.

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WORLD
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South Africa and AIDS

A war still to be won

Dec 1st 2005 | JOHANNESBURG
From The Economist print edition

Progress is being made but bolder leadership is still needed

Reuters

Get article background

WORLD AIDS Day on December 1st provoked the usual flurry of reports, meetings and soul-searching in South Africa: unsurprisingly, since it is still the country with the world's largest number of people infected with HIV, the virus that causes the disease. Estimates range from 4.5 to 6.2m in a population of some 45m. The United Nations body that combats the blight, UNAIDS, says the virus has spread astonishingly fast, from less than 1% of South Africa's adults infected in 1990 to almost a quarter of them today. The government has been lambasted for its lethargic response to a pandemic that kills close to a thousand people a day. But there is progress at last, even if it is still too slow.

In November 2003, the government adopted a far-reaching strategy, the Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment, widely considered an excellent start, covering everything from prevention to the provision of antiretroviral treatment. The national health budget for AIDS has more than tripled since 2001, to 1.5 billion rand ($232m) this year. In March, after some delay, the ministry of health spent 3.4 billion rand on antiretroviral drugs, to give it almost three years' supply. Local pharmaceutical companies now provide such drugs a lot more cheaply.

About 85,000 people now receive them through the state health service, while another 60,000 get them privately. The government says this is the largest such programme in the world (Brazil's may, in fact, be bigger), with almost 200 public treatment centres, mainly in hospitals. There is at least one in every district.

But campaigners say that, impressive as this sounds, it is still too little. The Treatment Action Campaign (TAC), a pressure group pushing for more treatment to be available in South Africa,

points out that the figure of 85,000 falls short of the government's own target of treating 190,000, which was supposed to have been reached last March. Between 500,000 and 900,000 South Africans need treatment.

The main obstacle, according to TAC, is that the government is dragging its feet and putting out mixed messages. This week, the South African Medical Association and TAC jointly launched a legal action to force the minister of health, Manto Tshabalala-Msimang, to muzzle a controversial German doctor, Matthias Rath, who is claiming that antiretroviral drugs are poisonous and is promoting his own brand of vitamins as an alternative. Mrs Tshabalala-Msimang and the president, Thabo Mbeki, have previously sounded sceptical about the merits of antiretroviral drugs.

Stigma and fear, though slowly subsiding, still deter far too many people from getting tested, so hampering both prevention and treatment. This week a survey commissioned by the Nelson Mandela Foundation, a charity through which the former president promotes his ideals of freedom and human dignity, showed that a false sense of security prevails: at least half of those who already have HIV never believed they were at risk of getting it in the first place; such people therefore do not get tested. In spite of massive investment, efforts to prevent new infections have been disappointing. The Actuarial Society of South Africa reckons that some 530,000 South Africans were infected last year—and expects the number of new infections to stay the same in the next few years.

The public health service sorely needs more doctors and nurses, many of whom have fled to jobs in private medicine or abroad. Public treatment centres are struggling to cope with the huge numbers of AIDS patients they already have. François Venter, of the HIV/AIDS research centre at Johannesburg's Witwatersrand University, says that treatment needs to be decentralised to more accessible primary health-care clinics and in many cases could be done by medical assistants, not just by doctors and nurses. Support within communities also needs beefing up. The challenges of fighting AIDS in South Africa are still immense. Above all, a greater sense of urgency from the government is still desperately needed.

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Chechnya

Putin's heroes

Dec 1st 2005 | GROZNY
From The Economist print edition

AFP

A gruesome war that never really ended may soon flare up again

Get article background

THE guns are the most conspicuous things, more even than the bullet holes that scar the buildings like so much architectural acne. On November 27th, when Chechnya held parliamentary elections, the weapons often outnumbered the voters: guns brandished by the Russian troops who slouch at checkpoints; guns wielded by the uniformed Chechen police; and, at the polling stations, guns carried by the mainly young, jumpy men from the local militias—the most numerous, and the most feared, of which are the *kadyrovtsy*, or henchmen of Ramzan Kadyrov, the warlord son of a Chechen president who was blown up last year. Vladimir Putin has officially designated Mr Kadyrov junior a “hero of Russia”.

This much-delayed vote was the latest Kremlin bid to show that, after a decade of war with Chechen separatists that has left perhaps 100,000 dead and many more displaced from their homes, Chechnya is on its way to normality. By Russian standards, in some ways the election was indeed normal. Discounting the gang of voters that seemed to track a group of foreign journalists as they travelled between polling stations (at each of which traditional Chechen dancing magically broke out on cue), turnout appeared thin. Not everyone was enthusiastic: “death, hunger and destruction” was all that Chechnya's post-Soviet leaders had given it, said one man on the outskirts of Grozny, Chechnya's capital, who had crossed out all the names on his ballot paper.

Nevertheless the official turnout was over 60%, and—surprise!—United Russia, the Kremlin's pet party, took around 60% of the votes. Nothing abnormal there, at least in Russian terms. But what distinguishes Chechnya's election is the plethora of guns—and the war that the Kremlin

misleadingly claims is over, and the rest of the world has largely forgotten.

Friends like these

The separatists who hide out in Chechnya's southern mountains continue to clash with Russian forces, and to pay local youths who bomb Russian installations and can supply video evidence to prove it. Russians are still dying in large, if sketchy, numbers. But Mr Putin's policy of "Chechenisation" has meant outsourcing most of the violence to local militias—especially the *kadyrovtsy*, who on most estimates number around 7,000. Many, like the Kadyrov family itself, are former rebels. "I was sitting at home," comments one, with a smile, when asked what he did before joining the militia.

Officially, Mr Kadyrov junior is Chechnya's first-deputy prime minister, and his militia's job is to fight terrorism. In reality, and although the perpetrators are often hard to identify (and drunken Russian soldiers still murder people too), human-rights workers reckon that the *kadyrovtsy* are now responsible for many of the region's outrages: mass kidnappings, the extraction of meaningless confessions and incriminations under torture, and killings. They answer only to Ramzan, and, usually, there is no redress. "To whom?" asks one torture victim in Grozny, when asked whether he has ever complained.

It is not surprising that most people at the polling stations said that ending the war, which is officially over already, was one of the country's two top priorities. The other is jobs. Salaries for the *kadyrovtsy* begin at 14,000 roubles ($485) a month—five times what Tamara, a teacher with four children who was bombed out of her home in the village of Gorogorsk, says she earns. Besides a few roadside shacks and some shepherds, there is little economy to speak of outside Grozny, and unemployment is almost total. There are a few signs of life in the capital; but the city is still a wasteland of abandoned rubbish, stray dogs and half-bombed, half-inhabited apartment blocks, with washing strung across the shell holes and decorated by giant posters of Ramzan receiving his hero's medal from Mr Putin.

"This is how I introduce myself," says Movsar Temirbaev, the city's mayor. "As mayor of the most destroyed city in the world." There are more cars on the streets, it is said, only because after bombed-out Chechens have paid the 30-50% kickback needed to extract the federal compensation to which they are entitled, the cash does not stretch to a new apartment. Along with embezzlement, local money-spinners include pilfering of oil, trade in stolen military kit and ransoms, sometimes for live kidnap victims, sometimes for corpses. "It's none of our business," says a man in the village of Gvardeiskoe, when asked where the money came from for the incongruously grand houses nearby.

Will the newly elected parliamentarians make any difference? "Only to themselves," says one Grozny resident. The reason, as Andreas Gross, of the parliamentary assembly of the Council of Europe, puts it, is that "the real power [in Chechnya] is not with the elected authorities." In a pre-election poll, 2% of Chechens said the election results would be determined by the voters; 9% said by Mr Putin; 72% said by Ramzan Kadyrov. Next year, when he turns 30—the age that Chechnya's constitution prescribes as the minimum for its president—Mr Kadyrov's de facto power may become official. The new parliament's main job, say some Chechens, will be to approve his nomination by Mr Putin as president.

It is hard to find many reasons for hope that Chechnya will get any better. Alu Alkhanov, who took over as Chechnya's president from Mr Kadyrov senior, said this week in Grozny that he was willing to meet followers of Aslan Maskhadov, an ex-president turned rebel leader who was killed in March (given his predecessors' nasty fates and Ramzan's impending birthday, Mr Alkhanov would do well to plan a retirement strategy). But there are few credible, moderate leaders left. A few recently

demobbed separatists ran in the election; one, Magomed Khambiyev, is said to have turned himself in after several relatives were kidnapped. Mr Khambiyev stood for the Union of Right Forces, a liberal party whose strongish showing was the election's only semi-surprise. But no active separatists took part.

Conversely, it is quite easy to see how things might get a lot worse. Mr Putin's Chechnya policy amounts to a gamble on Ramzan Kadyrov's loyalty. It is a risky bet—not just for the benighted Chechens, nor only because the paramilitaries' abominations drive some young people to join the separatists as their best chance of vengeance. Russian soldiers in Chechnya say that the *kadyrovtsy* already clash often, and violently, with federal troops, as well as with official Chechen police. In the end, concludes one gloomy Russian lieutenant, “there will be another war”—this time, quite possibly, against a foe whom the Kremlin itself has succoured.

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Russian democracy

Frozen out

Dec 1st 2005 | MOSCOW
From The Economist print edition

Two tales of civil society in Russia

“ALL power to the people!” “Peace to the world!” Saying one thing and doing the opposite is a Soviet habit that Vladimir Putin seems to have inherited. Few Russians have noticed that, on his instructions, they are to have a new assembly, to give them more say in policy. Yet some appointed members of the new “Public Chamber”, which includes a pop diva, a figure skater and a couple of tamed oligarchs, seem uncertain what their new ornament of Russian democracy is supposed to do.

By the time the chamber starts functioning next year, a bill making its way through the Russian parliament may have drastically undermined the country's only genuine democratic watchdogs. As Steven Solnick of the Ford Foundation puts it, in its current form the bill would establish a “murky and arbitrary set of rules for domestic non-governmental organisations and an impossible situation for many foreign ones.” The state would acquire new powers to close NGOs. Foreign NGOs could no longer operate branches in Russia, which might mean that Russian offices of such groups as Médecins Sans Frontières (a medical-relief charity vitriolically criticised by Russian politicians) will have to close.

Two hangovers of Soviet paranoia lie behind the bill. One is the view that the West is bent on weakening Russia. The other is that the main motive is money. Why—other than for foreign cash—would perfidious Ukrainians have camped out in frozen Kiev last year? And what are foreign do-gooders really up to? Earlier this year, Russia's security-service chief baldly accused some foreign NGOs of espionage. “We understand that you dance with the one who brought you,” Mr Putin said, opaquely.

The protests at home (including, in fairness, from some members of the Public Chamber) and abroad may yet result in amendments. The Kremlin sometimes makes concessions to give an appearance of reasonableness. However, the outcry may persuade the paranoiacs that they were right to worry all along. In which case, says Alexander Petrov of Human Rights Watch, Russian civil society would become yet another democratic “wax-work”, like the Russian parliament iself.

There are two interpretations of this building of a phony democracy as the real one is strangled, neither of them cheering. Either Mr Putin is just being cynical when he claims to be a democrat; or, more worryingly, he and his ex-KGB cronies cannot tell the difference between wax-works and the real thing.

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Germany

Merkel's adagio

Dec 1st 2005 | FRANKFURT
From The Economist print edition

The new chancellor upsets eager reformers, but slowness may yet work

Reuters

Merkel's physics lesson

SCORES of personal computers linked together can outperform a giant mainframe, argued Angela Merkel in her first big speech to the Bundestag as Germany's new chancellor on November 30th. That was the image this former physics teacher chose to describe—and justify—a fragmented programme that promises many little steps in the general direction of reform, rather than one big leap.

German businessmen had hoped that Ms Merkel might use the coalition contract, agreed last month between the Christian Democrats, their Bavarian sister party, the Christian Social Union, and the Social Democrats, as a base for more radical changes in taxation, the labour market, streamlining of the bureaucracy and support of innovation. But two of the changes most desired by business, in corporate tax and in labour laws, have been deferred at least to 2008. So have changes in health-care financing. The corporate-tax challenge was ducked even though 70 advisers had drawn up a plan acceptable to both main parties last March.

Might a recasting of energy policy go the same way? Ms Merkel promised an energy summit next year to create a better mix of traditional and renewable energy sources and improve the trading of emissions. Action is needed to stop energy-intensive industries being driven abroad by high energy prices.

Ms Merkel has much on her plate. She has to get used to the political limelight, and she has to master a potentially fractious left-right “grand coalition”. By the end of this week she will have visited three big European partners, France, Britain and Poland. She plans a visit to America to meet George Bush in January. And she even has a hostage drama on her hands in Iraq, in which she promised this week not to give in to “blackmail”.

Her unwieldy coalition in Berlin is also struggling to find a consistent business policy. Should it interfere with Deutsche Bahn's decision to shift its headquarters from Berlin to Hamburg? There is much pressure to keep the state-owned railway in the capital. And should Michael Glos, her conservative economics minister, defy the Federal Cartel Office and allow a takeover of ProSiebenSat.1, the biggest private television company, by Axel Springer, publisher of *Bild*, Germany's most influential daily? He can do it by ministerial decree. But such a decision would be risky at this early stage in the government's life.

Guido Westerwelle, leader of the opposition Free Democrats, reminded Ms Merkel that, during

their joint election campaign, they had a common economic programme, including tax and labour reform, that has now been abandoned. The grand coalition would not bring the changes Germany needed, he predicted.

It is not clear if any of the opposition—Mr Westerwelle's party, the Greens and the Left Party—will benefit from coalition troubles. There are signs of strains in the Left Party, which is comprised of WASG, a party of disgruntled trade unionists, and the PDS, a descendant of the old East German Communist Party. The coalition could gain from such a fragmented opposition. But it could also be embarrassed were the opposition parties to join forces, as they might do, to challenge the government's budget plans. For the first time, the planned budget deficit exceeds investment spending, which appears to infringe Article 115 of the German constitution. An opposition vote in parliament of one-third or more would be enough to take this issue to the constitutional court.

Ms Merkel's start does not bode well for her declared ambition to give Germany a leading role in an otherwise leaderless Europe. None of the big three euro-zone countries—France, Italy and Germany—is setting a good example on economic reform, budget discipline, innovation or growth. Yet there are signs of economic recovery; and Germany, in particular, could yet surprise on the upside. Ms Merkel has shown herself a good tactician in negotiations with political rivals of various stripes. Perhaps her little steps, like the networking of those humble computers, will prove a sound long-term strategy.

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Economist.com WORLD EUROPE

Secret CIA prisons in Europe

Extraordinary goings-on

Dec 1st 2005
From The Economist print edition

The CIA prison row may overshadow Condoleezza Rice's European tour

AMERICA'S secretary of state, Condoleezza Rice, can expect a bumpy reception when she flies to Berlin next week at the start of a four-day European tour. Mutterings over reports that the CIA is using airports and secret prisons in Europe for the incarceration and possible torture of terrorist suspects have grown into a full-blown protest. Jack Straw, Britain's foreign secretary, wrote this week to Ms Rice on behalf of the 25 members of the European Union, of which Britain is the current president, demanding clarification.

For many months, human-rights groups have been criticising the CIA's practice of “extraordinary renditions” to third countries, some with appalling human-rights records. But it was not until the *Washington Post* reported last month that two of the secret prisons were in eastern Europe that EU governments became excited. The consequences for those hosting such camps could be “extremely serious”, to the extent of a possible loss of voting rights, said Franco Frattini, the EU's justice commissioner.

In a second report this week, the *Washington Post* alleged that, besides Guantánamo Bay in Cuba, the CIA had held al-Qaeda suspects in secret prisons in eight countries, including Thailand, Afghanistan and several (unnamed) eastern European democracies. Human Rights Watch, a New York-based rights lobby, claims to have identified two of these “with a high degree of confidence” as Poland and Romania. Both countries vehemently deny the charge.

A dozen western European countries, including Germany, Italy, Spain, Portugal, the Netherlands, Austria, Sweden and Norway, have now set up inquiries into allegations of CIA kidnappings on their territory or CIA use of their airports or airspace to transport terrorist suspects. The Council of Europe has invoked its powers under Article 52 of the European Convention on Human Rights to ask its 45 members (including Russia) for information on suspicious CIA activities, as part of its own investigation into the affair. It is only the eighth time since the convention came into force in 1953 that this procedure has been used.

Ms Rice's tour, which will include stops in Romania, Ukraine and Brussels, is officially aimed at bolstering transatlantic support for America's “war on terror”. But the CIA scandal may well prove a big distraction. So far American officials, including Ms Rice, have refused to confirm or deny any of the allegations, insisting that they never discuss America's intelligence activities. But Europeans are unlikely to be satisfied with the bland assertion that America always complies with both domestic and international laws. Sadly, Abu Ghraib and Guantánamo are reminders that this claim cannot always be believed, particularly in the war on terror.

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Economist.com WORLD EUROPE

Turkey and the European Union

An image problem

Dec 1st 2005 | ANKARA AND ISTANBUL
From The Economist print edition

The government is not doing enough for Turkey's international reputation

MARC GROSSMAN, a former American ambassador to Turkey, would frequently complain that Turkey lacked “the PR gene”. Prickly, proud and fiercely nationalistic, the Turks are decidedly bad at the art of public relations. A popular adage has it that “the Turk has no other friend than the Turk.” Yet this will have to change if Turkey is ever to join the European Union. Despite a blizzard of reforms that helped Turkey win its prized start of EU membership talks in October, opposition is on the rise. France and Austria have pledged to hold referendums on Turkey's accession. Polls suggest that, right now, both would be lost by wide margins.

One factor is undoubtedly a general enlargement fatigue within the EU. But another is Turkey's image. Yet Turkish leaders seem neither to understand nor to care. That was certainly the impression that Recep Tayyip Erdogan, Turkey's prime minister, gave on a recent trip to Copenhagen. He attacked a Danish newspaper that ran cartoons of Muhammad, saying that “freedom of expression is important, but what is holy to me is more important.” He then boycotted a press conference with his Danish counterpart, Anders Fogh Rasmussen, because Mr Rasmussen had declined to kick out a journalist from Roj TV, a Kurdish satellite channel that is a pulpit for separatist PKK rebels. Turkish nationalists were delighted, but relations with Denmark have cooled.

Political gaffes may be forgotten, eventually. More lasting harm comes from the handful of repressive laws that have earned modern Turkey its bad reputation. Consider the case of Orhan Pamuk, a bestselling novelist. He will appear in court on December 16th on charges of insulting the Turkish identity, by making remarks (in Switzerland and Germany) not just about thousands of Kurds who have been killed, but also about the mass slaughter of Armenians by the Ottoman Turks in 1915. A slew of similar thought-crime cases launched against academics and writers has prompted warnings from the EU that Turkey's membership talks might be interrupted.

Ali Babacan, the finance minister who is now leading the EU talks, rules out more changes to the penal code to stop such cases. He says that their results should be awaited first, implying that there are unlikely to be any convictions. But this, comments one EU ambassador, is to miss the point, which is “ that [the cases] should not be launched in the first place.”

Government bumbling has prompted Turkey's main industrialist lobby, Tusiad, to mount its own campaign to burnish Turkey's image, stressing the country's recent economic progress. Many Europeans think of Turkey “as an agrarian backwater, even though farming accounts for 11% and services for 55% of GDP”, says Oya Unlu, a top executive at Turkey's biggest conglomerate, KOC, which controls some 7% of the white-goods market in Europe. Tusiad's strategy also involves persuading Europeans that secular Turkey's moderate brand of Islam “can be part of the solution rather than an added cause for anti-Muslim sentiment in Europe”, says Umit Boyner, who is in charge of the project.

European diplomats point out that, if Turkey is to disprove the popular talk of a “clash of

civilisations”, it should start to treat its own non-Muslim minorities better. It could begin with one of the most eminent figures in the Christian world, the Orthodox patriarch, Bartholomew I, who by a quirk of history resides in Istanbul. A loyal Turkish subject, he has lobbied hard for Turkey's inclusion in the European Union. But far from cherishing Bartholomew I, the Turkish state keeps him on a tight rein, and continues to resist his demands to reopen the Orthodox Christian seminary at Halki, near Istanbul. Reopening Halki, Mr Grossman also used frequently to note, was “a no-brainer” that could earn Turkey invaluable brownie points not just in Europe, but in America as well.

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Economist.com WORLD EUROPE

Italian politics

Legislation, Italian-style

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From The Economist print edition

How Silvio Berlusconi's government speeds bad laws and delays good ones

AFP

Nice place for a strike

THE Italian Senate has just passed a legal-reform bill that few outside the prime minister's own circle actually want. Yet five days earlier, the cabinet delayed—and may have doomed—urgently needed pension reforms. Both decisions reflected Mr Berlusconi's own interests. No wonder Italians have just staged their sixth general strike under this government.

The legal-reform bill doubles the penalties for Mafia offences, which is fine; halts the suspension of sentences for repeat offenders, which is more arguable; and eases the threat of jail for rich defendants in white-collar cases, which is deplorable. It cuts the statute of limitations (after which a crime is automatically expunged) for corruption, fraud and false accounting. By the time the tortuous judicial system produces a verdict, many defendants may go free.

Thousands of trials, now and in future, will become pointless. Among likely beneficiaries are Mr Berlusconi, who faces yet another trial, on charges of embezzlement, fraud and false accounting at his Mediaset firm. Others may include those on trial for the Parmalat corporate-fraud scandal. Yet opposition critics argue that the bill's real purpose was to save Mr Berlusconi's former lawyer, Cesare Previti, from jail. Mr Previti is appealing against two convictions for corruption. The criticism proved so embarrassing that the government's supporters removed the “Salva Previti” clause from the bill. But Mr Previti will still benefit from another provision that precludes jail for most over-70s.

The days are ticking away to the dissolution of this legislature before an election next April. Yet Mr Berlusconi's government is wasting parliament's time in measures that benefit him or his allies. Many hours have been devoted to a constitutional reform favoured by the Northern League that is not expected to survive the referendum demanded by law. Italy's electoral system is also being

changed, in a bid to improve the right's prospects. And Mr Berlusconi is threatening to alter the rules on political advertising to allow him to bring his money to bear on the outcome. Meanwhile, desperately needed structural-reform measures, including one to improve corporate governance, are languishing. If the pension reform is delayed too, the government's sole completed reform will be an overhaul of the labour market that was largely inherited from its predecessor.

The pension reform was the second part in a two-stage project. Italy spends a massive 14% of GDP on pensions. Last year, parliament raised the minimum age for state pensions from 57 to 60, but only from 2008. A decree was planned to speed up other changes. It aimed to cut the state's eventual liabilities by freeing for long-term investment the 7% or so of wages that Italian employees contribute towards their severance-pay funds. As much as €14 billion ($16 billion) could flow into independent pension funds, providing a bonanza for asset managers. But insurance companies feel they should do better still, and want changes to the decree. A leading insurer is Mediolanum, 35% owned by Fininvest, the company at the apex of Mr Berlusconi's empire.

Last week, the cabinet came close to sinking the whole bill, but instead opted to delay its introduction by two years, until 2008. The prime minister did not take part on either occasion; three ministers from his party abstained in the final vote. But the insurance industry's friends in government make no secret that they will use the two-year delay to reopen the decree.

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Charlemagne

Isolation fever

Dec 1st 2005
From The Economist print edition

How Tony Blair may, yet again, follow in Margaret Thatcher's footsteps

ONE of the more pointless Brussels parlour games is to tot up the achievements of whichever country happens to hold the European Union's six-monthly revolving presidency. The score-sheet for Britain, the current Buggins, looks poor. The British say that the start of accession talks with Turkey on October 3rd was a great achievement, but the original deal was struck last December. Nobody else thinks Britain has done much (this week's Barcelona conference was a notable flop, with eight of the ten Mediterranean leaders invited staying away).

Normally, the game of assessing presidencies is just that: a game. But this time it may reflect something that is happening on the ground: Britain is becoming more isolated in the EU. This could have profound consequences for both Britain and Europe.

The proximate cause of the isolation is the British budget rebate. Some 80% of EU spending goes to farmers or poor regions—and Britain has comparatively few of either. To offset the resulting unfairness, Britain gets a rebate, negotiated acrimoniously (with 11 against one) by Margaret Thatcher in 1984, that refunds some two-thirds of the difference between its contribution and its receipts. Britain argues that the rebate must stay until the common agricultural policy (CAP), the guilty party in the EU budget anomaly, is further reformed and cut.

The rest reply that the CAP was reformed in 2002-03, and that Britain accepted this deal, which was supposed to last until 2013. Another bout of change now would be premature. Instead, Britain should give up most or all of the rebate, so as to ensure that it pays its fair share towards the cost of enlargement. Under the rebate, Britain gets back two-thirds of its contributions to enlargement: indeed, the new EU members, all much poorer than Britain, contribute towards the “British cheque”. Britain also suffers less than others from competition for regional subsidies, as it gets so

few. Thus Britain does relatively well from enlargement. If nothing is done about the rebate, Britain will go from being one of the largest to one of the smallest of the ten or so net contributors to the budget—an outcome that Britain, but nobody else, looks upon with equanimity.

Britain is in a tiny minority on the financing of the EU. Last June, it was one of five countries that rejected the then Luxembourg presidency's proposed budget for 2007-13. This would have frozen the rebate, with a view to phasing it out. Most countries thought that Britain would eventually come round to accepting some version of that compromise. Instead, Tony Blair seems to have become more hostile to it—either because he is accused in Britain of sacrificing the Thatcher money or, as France's Jacques Chirac suggested this week, because his chancellor, Gordon Brown, has insisted on a tougher line.

Last week, finance ministers broke up with more than the usual bickering. Next week, Britain will present a new budget pitch. It is prepared to trim the rebate a little; but to pay for this by reducing regional subsidies to the new members. On these, the British claim boils down to the argument that “this won't hurt a bit”, because the new members are likely to spend little more than half their allocations. Yet first reactions from the new members have been uniformly hostile. Nor is it clear that the older members, notably France, want to avoid a row with Britain. They might prefer to see British energies in the EU during 2006 used up in an enervating budget fight reminiscent of the 1980s.

For most of the 1980s and early 1990s, Britain's splendid isolation was not so much a policy failure as a permanent condition of life in Europe. A handbag-toting Margaret Thatcher revelled in her summit clashes. John Major, under pressure from Eurosceptics, accepted isolation. But for Mr Blair, it would not be splendid: it would be a reversal. In his speech to the European Parliament in June, he declared that “I believe in Europe as a political project”—something his predecessors could not have said. Britain is not alone over economic reform: many new countries, and even some older ones, agree. Britain has joined France in trying to create a European defence policy. It has supported greater EU involvement in justice and home affairs. Even on the CAP, several countries share Britain's desires for more reform.

One gripe might be that none of this has done Britain any good in the EU budget negotiations. A more reasonable conclusion is that British isolation over the rebate no longer expresses a more profound isolation from everything in Brussels. But, paradoxically, this lesser isolation might matter more than the greater one did. When Britain was more completely cut off, it had little influence within the EU. Now, it has more to lose.

The cost of isolation

If the budget wrangle ends up leaving Britain more isolated, its alliance with the new members is sure to suffer (Britain was their best friend before membership and, until the British rebate came up, they have been Britain's). Without a budget deal, Britain might have to forgo some of the things that it wants out of the EU: more spending on European defence and justice, for example, or more deals (like the recent one on sugar) to reform the most absurd and trade-distorting features of the CAP. More subtly, Britain risks missing an opportunity to entrench its general policy influence across the EU. After the rejection of the constitution in France and the Netherlands, Anglo-Saxon liberalism is being taken more seriously throughout the continent, and French *dirigisme* less.

None of this necessarily implies that Britain will or should cave in over the budget. As the Treasury might say, influence is not worth anything like as much as the billions of pounds that taxpayers get from the rebate. And Britain is surely right to press for more CAP reform in any case. Still, if budget wrangling spills into next year, it will not be only the new members that will suffer. So will

some of the causes that Britain has supported for so long—often, it must be said, alone.

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Economist.com WORLD EUROPE

Pension reforms

A brighter future for pensions

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From The Economist print edition

But will Labour go for it?

Get article background

A YEAR ago, the Pensions Commission concluded that the pension system was heading for trouble. Without sweeping changes, future generations of pensioners would get an ever rawer deal. On November 30th, the government-appointed body, chaired by Lord Turner, a former head of the Confederation of British Industry, set out a new destination, and charted a course to get there.

The central problem is clear. Over the next 30 years, the number of pensioners will jump by 45% as the post-war generation of baby-boomers retires; by 2050 the increase will reach 55%. If pensioners are to maintain their living standards in relation to the rest of society, the share of GDP transferred to them will have to rise sharply, from 9.4% today to 14.5% in 2050.

Yet if things carry on as now, neither tax-funded spending on pensions nor private retirement saving will fill this gap. The government expects its outlays on pensioners to stay roughly the same as a proportion of the economy. It hopes that rising income from private pensions will make up the difference. But as more and more firms have shut their final-salary-linked schemes to new members this has become a vain aspiration. With no sign that individuals are doing more to provide for themselves, the commission says that voluntary pension provision is “in serious and probably irreversible decline”.

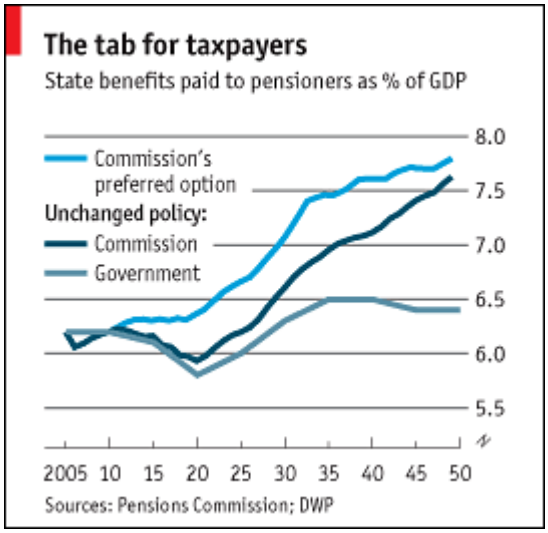
So what is to be done? There are no soft options, only hard choices and tricky trade-offs. The most obvious yet highly unpopular response to the demographic challenge is to raise the state-pension age, currently 65 for men and 60 for women (though set to go up to a common 65 between 2010 and 2020). The commission then wants it to rise by a year a decade, so that it would reach 68 by 2050.

This taboo-breaking reform will make a big difference, provided that it also raises the age when people actually retire. If it has this effect, then the increase in the state-pension age will provide half the shortfall. However, that still leaves a sizeable gap: 2.4% of GDP. Much of this must come from higher public spending on pensions, says the commission. It reckons its proposals will raise government expenditure by 1.6% of GDP by 2050 (see chart).

Asking future taxpayers to stump up for tomorrow's pensioners is as unpalatable as raising the retirement age. But the commission thinks the current policy of keeping a lid on state-pension spending by concentrating it on poorer pensioners will be more expensive than the Treasury thinks and unworkable in the long run.

Pride of place in the government's strategy, not least since it is Gordon Brown's pet idea, is the top-up means-

tested pension credit, which helps poorer pensioners. The snag is that it creates a disincentive to save, since for every additional pound of retirement income people will lose at least 40p as the credit is withdrawn. Financial advisers fear that if they sell pensions to people on average earnings they will subsequently be accused of misselling. Worryingly, more and more people will be affected: as many as 70% of pensioners could be eligible for the pension credit by the mid-2030s.



If people don't save, they will fall back on the government, which will push up spending anyway. That's why the commission wants to reform Britain's two-tier state pensions so that they provide a minimum adequate benefit for everyone. The most important tier is the flat-rate basic state pension (BSP). This has steadily lost value in relation to overall living standards since it was linked in 1980 to prices, which rise more slowly than wages. The commission wants to restore the link to wages, as soon as 2010 if possible. Meanwhile, it wants to speed up reforms already planned for the second state pension so that it will become a flat-rate benefit like the BSP by around 2030.

The aim is that, together, the two flat-rate state benefits will provide a pension worth about 30% of average earnings. That will curb the need for means-testing but it's hardly a princely amount. So the commission wants to boost it with more private retirement saving through a new national scheme aimed at employees on low to middle incomes.

The idea is that employees will be automatically enrolled into the scheme—while retaining the right to opt out—at a contribution rate of 5% of salary. Companies would then have to chip in an additional 3%, resulting in an overall rate of 8% of salary, with total contributions capped at £3,000 a year. The money would be collected through the tax system but individuals would own their pension nest-eggs and decide where to invest it, with an automatic option for those making no choice.

The singular virtue of the proposal is that it avoids compulsion for individuals, yet is likely to boost participation rates greatly—if experience with some pioneering American employer plans is anything to go by. It will make employers cross at first as they will have to contribute their whack if employees stay enrolled. But despite their harrumphing they should eventually be able to pass on the cost to workers by paying them lower wages.

The scheme will also drive down charges, which can eat into the value of individual saving. Through cheap collection and administration, and by exploiting its power as a bulk-purchaser of fund management, the scheme should be able to bring down the annual charges from 1.3% for a low-cost stakeholder personal pension to 0.3%. This should push up its eventual value to long-term savers by something like a quarter.

The national savings plan will generate extra resources of 0.7% of GDP for pensioners by 2050, so closing the shortfall when combined with the higher state-pension age and increased public spending. The Turner commission's proposals thus set out a new direction for Britain's pension system: a more generous state pension at a higher age; a move away from means-testing; and an ambitious attempt to promote more retirement saving without compelling individuals to do so.

The recommendations seek to spread the pain between the generations. Future pensioners will have to work longer and save more; tomorrow's workers will have to pay more tax. But the

immediate pain will be political. Having set up the commission, Labour has got to decide whether or not to follow its advice.

The auguries are unpromising. The Treasury's briefings after the report suggest that it will oppose many of the recommendations because of their cost. Yet Tony Blair and the work and pensions minister, John Hutton, have broadly welcomed the report, though stressing that it must be affordable. The temptation to resist hard choices may be all but irresistible.

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Economist.com WORLD EUROPE

Nuclear power

Critical mass

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From The Economist print edition

A revival of nuclear power generation looks more likely than ever

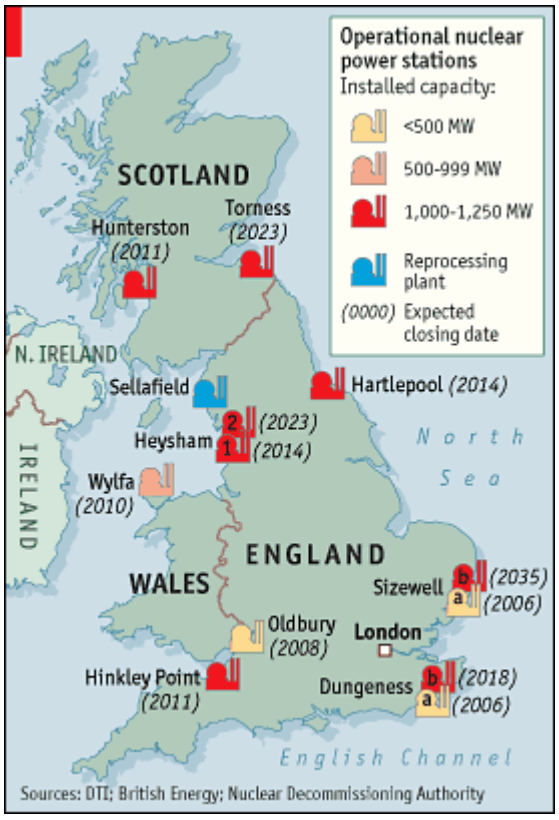
Get article background

ENERGY policy is meant to be for the long term. So it was odd to see Tony Blair this week announce his second review of energy strategy in two years, including whether to build a new set of nuclear power plants. This is an option the government had said looked “unattractive” last time round. Since then several of Mr Blair's advisers have been busily undermining that conclusion. Sir David King, the government's chief scientific adviser, is in favour of nuclear power. Even Margaret Beckett, the environment secretary (long thought to be a sceptic), recently signalled her grudging support. Many Westminster-watchers see the review as a fig-leaf, needed only to justify a nuclear revival that Mr Blair has already decided on.

Why the change of heart? In a speech on November 29th to the Confederation of British Industry, disrupted by protesters, Mr Blair listed high energy prices, supply worries and climate change as reasons for a rethink. All three are of more concern now than they were two years ago. Greenhouse gas emissions are rising again. North Sea oil and gas reserves are declining, and as Britain becomes a net energy importer, there are fears about over-reliance on Russia and North Africa. Dearer oil has sent utility bills spiralling upwards, while the prospect of a cold winter pushed gas prices last week to record levels.

In principle, atomic energy looks like an attractive solution to all these problems. Fuel costs have only a small effect on nuclear electricity prices, unlike gas or coal-fired generation. Uranium can be bought from stable countries like Canada and Australia. And fission creates no greenhouse gases (although mining and enriching the uranium do). The government also has a big hole in power generation to fill caused by the closure within the next 18 years of all but one of the nuclear plants that currently supply about a fifth of Britain's electricity. Back in 2003, the government said renewables such as wind or wave power were the answer. Now Mr Blair admits that they will not be enough.

Nuclear boosters claim that dear fossil fuel is here to stay, but critics reckon gas prices will fall as new infrastructure is built. What's not in doubt is that emissions trading, which is now catching on, makes carbon-free nuclear energy look much more attractive than before.



The biggest problem with nuclear is still cost. Nuclear power plants are long-lived and expensive. That makes their economics extremely sensitive. Accounting assumptions about capital costs and discount rates make a big difference, as do variations in electricity prices. Historically, the industry has been a money-pit.

Up to now, ministers have insisted that any new plants be paid for by the private sector. But worries about the political risks attached to nuclear power and the fact that current carbon-trading arrangements run only until 2008 have made investors reluctant to get involved. Several studies have tried to guess how much new reactors might cost, but their answers vary widely.

Not everyone thinks subsidies are bad. Sir David, whose main aim is to curb emissions, has floated the idea of a levy on fuel bills to pay for new power stations. Such talk has upset some Labour MPs, about half of whom, according to a recent poll, do not want new nuclear power plants. Last week, 41 of them signed a Commons motion condemning the idea. Opposition Conservatives, however, are in favour.

Despite the difficulties, nuclear power looks as if it is on the way back. Even the timing of the review looks convenient. Its authors are to report early next summer when a separate report on nuclear waste disposal is also expected. A credible plan for dealing with nuclear waste would make it easier to sell new power plants to environmentally-concerned voters.

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The Child Support Agency

Unhappy families

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Bad management and more lone parenting have hobbled the agency

HAPPY families may all be alike, but the variety that characterises the unhappy ones makes the job of the Child Support Agency (CSA) hard. It was set up in 1993 to calculate and collect the maintenance payments due from one parent to another when a family splits up and the parent with custody is entitled to income support. The idea was to stop the state from having to pay the full cost of raising children after a break-up and extract some cash from the deadbeat dads instead.

It has not worked well. Twelve years, several reforms and a new computer system later, Tony Blair said the CSA was “not properly suited to carry out its task”. Before he was replaced as secretary of state for work and pensions, David Blunkett called his own agency “a complete shambles”. Now the Tories are pressing for a solution.

The CSA is undoubtedly in a mess. A third of those who call it get put through to an answerphone. For those who do eventually speak to someone, the chances of cajoling the agency into collecting the correct monthly payment from a non-resident parent (95% of them are male) are not great. In 30% of all cases eligible for a payment, nothing was collected between April 2004 and September this year. In the last financial year, £9.2m was deemed “probably uncollectable”; well over £1 billion has in effect been written off to date.

Part of the problem lies in the way the agency is managed. The CSA's employees are both depressed and defensive: it has the highest levels of staff illness of any bit of the Department for Work and Pensions, which in turn is the most sickly bit of government. And the agency's enforcers, who seem reluctant to use their full powers, spent about £12m last year to collect only £8m from deadbeat dads.

These failings might be corrected by borrowing from abroad. Frank Field, a Labour backbencher, and David Laws, the Liberal Democrat spokesman on welfare issues, who have done most to uncover the CSA's poor performance, both think that the agency should operate alongside tax collectors in the Inland Revenue, with easy access to data on incomes. Australia's Child Support Agency works like this and manages to collect about £8 for every £1 spent on administration; the CSA, by contrast, spends £1 for every £1.86 transferred between parents. In some American states, delinquent dads are liable to find their faces in newspapers or on the sides of milk cartons; some places round them up and sling them in jail for an afternoon.

But no amount of reform will reverse the social change that has steadily increased the CSA's workload and added to its problems. Since 1992, when Peter Lilley, a Conservative minister, made a famously aggressive speech about single mothers on benefits, set to the rhythm of the Lord High Executioner's song from “The Mikado”, the number of single-parent families has risen from 1.1m to 1.8m. Britain has the highest proportion of single mothers of any European country, according to Jonathan Bradshaw of the University of York. Many of them are poor, and so depend on the CSA.

Nor would collecting child support more efficiently make those who are delinquent in paying it any more willing to do so. Many feel that their financial responsibility is reduced if they were not the ones who ended the relationship, or had no knowledge of the pregnancy and hence no influence over whether it went ahead. And they may already have formed a new family unit (as may the mothers: about half of them find new partners within five years). “By insisting on a contribution to first families, we might be undermining the viability of the second families,” says Mr Bradshaw. No easy answers.

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Civil partnerships

Yellow brick road

Dec 1st 2005
From The Economist print edition

Why gay marriage is so uncontroversial in Britain

CIVIL partnerships between gay people, dubbed gay marriage, become legal next week, when same-sex couples will be able to register their intent to get hitched. After 15 days of form-filling, the first weddings will take place on December 20th in Scotland and December 21st elsewhere. Unlike in America, where marriages between homosexuals in San Francisco have provoked conservatives to try to ban them, in Britain the only fights are among councils vying to be the preferred venue for happy couples to tie the knot. And rather than discussing the threat to the sacred institution of marriage posed by hordes of homosexuals, debate has focused on the possible tax advantages for elderly friends entering into a civil partnership.

At the moment, gay people face heavy taxes when a partner dies. Now they will be able to get the same tax breaks as married heterosexuals. So when one dies, the other inherits his or her assets free of tax, and will also have a claim on the partner's pension.

Equally important, though, is the feeling of normality that civil partnerships will bring. “It's a gentle reminder that there are lots of rather dull gay people who live in stable, monogamous relationships,” says Ben Summerskill of Stonewall, the biggest gay campaign group. “They do quite like having a party and a wedding list at John Lewis, just like everybody else.”

Among the first to wed will be Sir Elton John, a bespectacled pop singer, who against expectations is planning a low-key ceremony. Those wishing to splash out, however, will find plenty of gay wedding planners offering layered cakes with two grooms on top, competing to relieve them of their cash. Richard Jones, creative director of Modern Commitments, says that many of the weddings will have themes. “Winter wonderland” is popular, as is “Hollywood” (complete with red carpets, tuxedos and flash bulbs). Some couples, says Mr Jones, will take their theme from a favourite film: the “Wizard of Oz” is particularly popular.

Why is there so little fuss over all this? One reason is that British Conservatives are less conservative than their American cousins. The Tory front bench in the House of Lords recently pressed the government on how gays are treated by public services, for instance. Another is that Stonewall has operated in a discreet, bipartisan way of late, unlike America's more confrontational campaigners. Most of all, though Britons may be no more tolerant of each other than other nations, they are certainly more secular. So religious passions have played little part in the debate.

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Government figures

An end to spin

Dec 1st 2005
From The Economist print edition

It may soon become easier to trust official numbers

NOTHING Gordon Brown has done in the eight years since he became chancellor has been as widely praised as his handing over in 1997 of the power to set interest rates to the Bank of England. On November 28th he recalled those glory days in a speech at the annual conference of the Confederation of British Industry. This time, he announced that the Office for National Statistics (ONS) would be given its freedom, a move he said was modelled on his earlier liberation of the central bank. It is an ambitious comparison.

The ONS is a government department, whose output is informed by its own professionalism but reviewed before release by ministers. Its head is the “National Statistician”, who lays down a non-statutory code for official statistics that all government statisticians are supposed to pay attention to.

Mr Brown wants the ONS to have its own governing board, with some external members, and to be accountable to Parliament for the integrity of at least its own statistics. But that looks trickier than handing over a single decision every month on interest rates to the Bank of England.

The ONS is a large department, with a budget of £155m and nearly 5,000 employees. Many of the most important official numbers are produced by regional administrations such as the Scottish Executive, or by other departments, such as health and education. And there are hordes of number-crunchers working in other bits of the government who report primarily to their own department heads. It is unclear just how wide the authority of a new independent ONS would be.

Another slight hitch is that there is already an independent watchdog, the Statistics Commission, though with no powers to enforce any judgments it might reach. Eighteen months ago, in a report requested by the government, the commission called for new legislation actually to regulate the statistics produced by all government departments and agencies, not just those of the ONS. “We never got a response,” says Richard Alldritt, chief executive of the Statistics Commission. “Now, out of complete silence, comes a very significant move, and I think it's fair to say the newspapers knew before we did.”

The unexpected timing may simply be because Mr Brown was looking for something to announce that would be widely welcomed (and not obviously costly). But perhaps the real reason is that he sees some good statistical news on the horizon, and would like the public to believe it. There is little chance of that at the moment: in November, MORI, a firm of pollsters, reported that only 17% of people think official figures are produced without political interference.

The most likely good news may stem from big changes over the next couple of years in the way that public-sector output and productivity are calculated. A recent ONS discussion paper came up with a wide range of ways to measure productivity in education, for example—some of which showed productivity rising and others just the reverse. The choice could make all the difference to whether increased government spending on public services looks as if it has been worthwhile.

Before the Bank of England was made independent, people also suspected that changes to interest rates were being made for political rather than economic reasons, particularly since rates had a curious tendency to fall just before elections. Mr Brown must be hoping that the new governing board for the ONS will, like the Bank's Monetary Policy Committee, come to be seen as trustworthy and free from political meddling. If—and only if—this happens will his latest announcement still be earning him plaudits in another eight years' time.

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Teaching history

Isambard Nosmokingdom Brunel

Dec 1st 2005
From The Economist print edition

A great man tainted by a disgusting habit

IN HIS version of “Hamlet”, Thomas Bowdler had Ophelia drown accidentally—lest women and children be led astray by her sinful example of suicide. Almost 200 years after the publication of “Family Shakespeare”, the world remains a wicked place. Perhaps that is why Heinemann, the educational arm of Reed-Elsevier, has taken it upon itself to do some bowdlerising of its own.

“The Life of Isambard Kingdom Brunel” by Leonie Bennett is hardly Shakespeare. Its subject furnished Victorian Britain with railways, bridges and steamships and came second behind Churchill in a BBC poll of great Britons in 2002. In a famous photograph, Brunel, standing in front of the launching chains of the *Great Eastern* in 1857, has a cigar wedged firmly in the corner of his mouth. Not though, in Heinemann's “Life”, published in hardback earlier this year and to appear in paperback in the spring. Its cover has airbrushed out the foul stogie.

Heinemann says that teachers and school librarians will not buy books for young children if their covers picture people smoking. Brunel's cigars are incidental to his identity, it says, in a way that Churchill's were not. Nor is the publisher the first to tamper with the great man's smokes. A brochure for the *SS Great Britain* airbrushed out the offending stump in the late 1990s. (The ship's owners say this was a fleeting mistake.)

But why should children's publishers stop with Brunel? One way or another, each of the Britons in the BBC's top ten had his faults. Churchill drank too much; Princess Diana was an adulterer; Darwin lost his faith in God; Shakespeare left his wife; Newton dabbled in alchemy; Elizabeth I had her enemies bumped off; John Lennon took drugs; Nelson fornicated; and Oliver Cromwell was disfigured by some very nasty warts. For goodness sake, keep such horrid things out of the classroom—along with most of the world's history, art, literature, music and film.

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P&O

Shipped somewhere east of Suez

Dec 1st 2005 | DUBAI AND LONDON
From The Economist print edition

Steaming off into the sunset

Another famous British company is sold to foreigners

FOR those who mourn the demise of an empire built on maritime might, the agreed takeover of P&O by Dubai's DP World for £3.3 billion is a sad moment. Two hundred years after the battle of Trafalgar sealed Britain's naval supremacy, the Peninsular and Oriental Steam Navigation Company, once a sinew of empire linking Britain to India and points further east, is falling into the hands of a former colony. If the deal goes through, what was once a crucial pillar of the British business establishment will henceforth be owned by a trucial state, as the United Arab Emirates (including Dubai) was known until 1971. That is when the British pulled out, in the general retreat from empire.

P&O is just the latest in a long line of big British companies that have been bought by foreigners recently, as the table shows. France's Pernod Ricard swallowed Allied Domecq, a leading drinks group. Spain's Telefónica is buying O2, once the mobile-phone arm of BT; Saint-Gobain, a French glass group, is about to take over BPB, a maker of plasterboard; and Deutsche Post is buying Exel, a transport and logistics firm. What makes Britain so attractive?

Start with the fact that its government keeps out of the way of foreign bidders. Countries such as France and Germany make it very clear that foreigners are not always welcome. France even has a list of nine “strategic” industries that are off-limits to outsiders. Officials there left Pepsi in little doubt recently that any attempt to buy Danone, its yoghurt-making national champion, would be badly received. Italy has similarly thrown sand in the wheels of bids by foreign banks for domestic ones.

British firms have other attractions too. They are relatively cheap; they are often cash-rich; they tend to have an international spread of business; and they fit more easily into the Anglo-Saxon culture of international business than do, say, prickly French or obdurate Germans.

The particular attractions of P&O have little to do with its past. The firm began diversifying in the 1970s to become a rather dull conglomerate, moving into construction and exhibitions halls including London's Olympia and Earls Court. Since then, P&O has steamed away from shipping, its core of yore. It merged its container business with a Dutch firm, Nedlloyd Lines, in 1996, and spun off its cruise business, later bought by America's Carnival. A cross-channel ferry service, loss-making when last inspected, is the only remaining vestige of P&O's once vast fleet of passenger and cargo vessels. Instead, it has sought safe harbour in the ports business. Just as airports make more money than airlines, so ports are good solid businesses, often enjoying a sort of monopoly that allows them to profit when (as now) shipping is buoyant, without plunging into the troughs when it isn't.

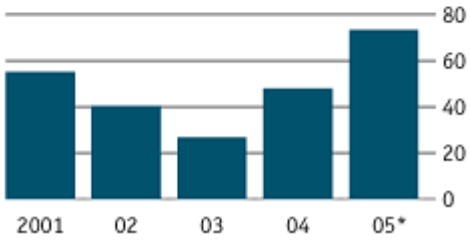
The main prize that DP World wants to acquire is P&O's network of container ports around the world. For this it is prepared to pay 46% more than the company's shares were worth before takeover talks were acknowledged publicly, and to contribute £200m towards closing P&O's gaping pension deficit.

Buy British

Top cross-border M&A deals into Britain, 2005

Target	Acquirer	Deal value £bn	Date
O2	Telefónica	17.9	Oct 31st
Allied Domecq	Pernod Ricard; Fortune Brands	9.2	Apr 21st
BPB	Compagnie de Saint-Gobain	4.4	Aug 3rd
Exel	Deutsche Post	4.0	Sep 19th
P&O	DP World	3.3	Nov 29th

Total deals, £bn



Sources: Dealogic; *The Economist* *Year to date

Dubai wants to become a leading international hub for transport of various sorts: it has already achieved this in aviation, and is working at it in shipping. Sending containers through a central hub allows ships to pick up cargo at smaller ports for a variety of destinations. At the hub port the containers can be consolidated with other cargoes bound for the same destinations, so that fewer and larger ships transport the goods more cheaply. Success depends on controlling a network of feeder ports.

P&O will bring DP World lots of those: 29 ports around the globe. The British firm also has plans to build Thames Gateway, a big new container port just outside London. And its ports are mainly modern and well run. All this has made it irresistible to DP World in a sector where few other big tempting targets can easily be purchased. The combined group will move into third place in terms of traffic through a main port—ahead of APM, part of the Maersk shipping group, though still lagging behind Hutchison Ports of Hong Kong and Singapore's PSA.

DP World began expanding before talks with P&O looked likely to get anywhere. Earlier this year it bought CSX World Terminals, an American port operator. It has branched out around the Persian Gulf and, more recently, in Romania, India and South Korea. But buying an international British group projects it for the first time on to a world stage. Which is pretty much why other British firms are so attractive to foreign buyers. The empire may be long gone, but the legacy lingers on.

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Bagehot

Gordon's way

Dec 1st 2005
From The Economist print edition

The chancellor's attitude to the Pensions Commission has made Labour MPs nervous

GORDON BROWN needs to be careful. One senior backbencher, who has no reason to be grateful to Tony Blair, privately observed this week that perhaps the greatest service he could do his party would be to lead a delegation to Downing Street begging the prime minister not to retire after all.

We're all used to stories about how some Labour MPs can't wait for Mr Blair to go and how others, better disposed towards the prime minister, nonetheless think he should push off soon and let his successor settle in before the next election. But Labour's dirty little secret is that surprisingly few MPs, apart from those who are guaranteed preferment under Mr Brown, are thrilled by the prospect of the chancellor taking over.

The left of the party may marginally prefer Mr Brown to Mr Blair, but it has long since abandoned hopes (never very realistic) that Mr Brown will shift policy in their direction. Of late, the chancellor has taken to reminding people that New Labour was his creation every bit as much as Mr Blair's. As for arch-Blairites, they have always feared that under a Brown premiership they might find themselves frozen out.

What's new is that the imminence of Mr Brown's succession is concentrating the minds of the broad swathe of loyalist, centrist MPs. And among them there is some anxiety, fuelled by what has gone on over the past few days, about the kind of prime minister Mr Brown may turn out to be.

This is not to suggest that the prize is about to be torn from Mr Brown's grasp at the last moment.

It is almost impossible to imagine how a credible alternative could emerge. But his recent behaviour has sharpened doubts that have long been lurking. Many people are uneasy about the way Mr Brown conducts business, and pensions have brought out the worst in him.

It matters little who leaked a letter last week from the chancellor to Lord Turner, the head of the Pensions Commission that published its long-awaited findings on Wednesday. The letter's purpose was to cast doubt on Lord Turner's sums. As everyone in Westminster knows, Mr Brown has been quietly denigrating the commission for more than a year.

He was unhappy from the moment its remit was expanded to include the future of state pensions as well as occupational schemes, although how the one could be considered without the other was never clear. Most recently, through anonymous briefings, he has attacked the affordability of its main proposals (see article). The chancellor has been irked by Lord Turner's criticism of the way his pet means-tested pension credits discourage saving and he is resentful of the commission's intrusion on his Treasury turf.

Mr Brown deserves some sympathy, but not much. In opposition he insisted on abandoning the Labour Party's commitment to restoring the earnings link for raising the basic state pension, ditched by Margaret Thatcher to save money. It was one of several tough and unpopular things he did to prove that Labour could be trusted with the nation's finances. Once in office, he invented pension credits, a relatively cheap way of giving much-needed help to the elderly poor.

But Mr Brown refuses to acknowledge what almost everyone with any knowledge of the subject can see: what might have been sensible politics a few years ago is not necessarily the basis for a long-term approach to pensions provision. Given that Mr Brown is not stupid, it must be that pensions don't really interest him. His priorities are alleviating poverty, while trying belatedly to control the explosion in public spending that he has presided over during the past five years.

However, for someone who bangs on about wanting to forge a “progressive consensus”, it is ironic that on an important subject where such a consensus has all but formed, he should be the one key protagonist who appears to want to stand outside it.

There are a number of things that should worry Labour MPs who are currently contemplating Mr Brown as their next leader. The first is his judgment—despite plenty of warnings, he didn't see this coming. He prides himself on being strategic, yet oddly failed to anticipate either the rising public concern over pensions or the broad welcome that Lord Turner's reform blueprint would receive. The most charitable explanation is that he has been at the Treasury for too long.

Reasons to be fearful

The second is Mr Brown's stubbornness. There is a widespread perception that the chancellor likes to surround himself with a small group of advisers who tend to confirm rather than challenge his views. Once he has made his mind up, which often takes a long time, he regards changing it as a sign of weakness, even when circumstances have altered.

MPs frequently criticise Mr Blair for being promiscuously open to new ideas, often rushing to put them into practice before there is any evidence that they might work. In contrast, when evidence mounts that he is wrong, Mr Brown still refuses to deviate, or at least admit that he has deviated, from his chosen path. Next Monday, when he delivers his annual pre-budget report, he will have to concede that both economic growth and tax revenues have substantially undershot his forecasts of only eight months ago. Rather than tighten spending, raise taxes or explain why it is sensible in present conditions to breach his fiscal rules, he will opt for bluffing his way through.

The third worry is Mr Brown's lack of openness. He aims either to close debate down, as he hopes even now to do with pensions, or to control it, as he succeeded in doing when putting up taxes to pay for higher health spending.

None of this will prevent Mr Brown from claiming his inheritance. But unless he starts to show Labour MPs that he is capable of changing his ways, their foreboding will only grow.

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Peace, order and rocky government

Dec 1st 2005
From The Economist print edition

Reuters

Canada's economy is booming, says Peter David (interviewed here). Its politics, as it heads for a second general election in under two years, is a mess

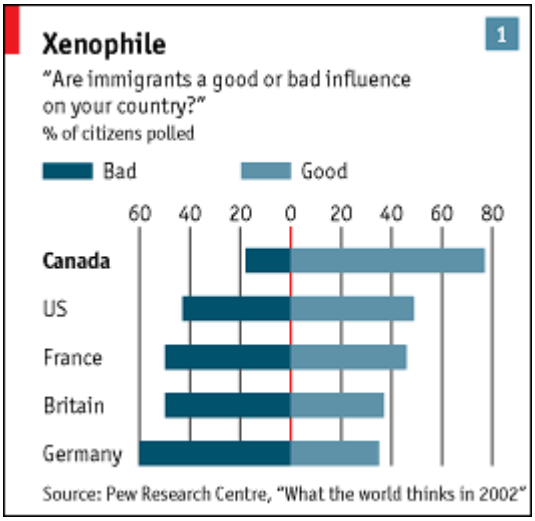
Get article background

“A CAUTIOUS case can be made that Canada is now rather cool,” this newspaper ventured in September 2003. And it still can. At a ceremony in Ottawa in September this year, Canada invested a new governor-general, the queen's representative in Canada and therefore its de facto head of state. She is Michaëlle Jean, a glamorous black television journalist and former refugee from Haiti. In her investiture speech Mrs Jean declared that the old story of Canada being separated into the “two solitudes” of English-speakers and French-speakers was at last over. Newspapers gushed. A banner headline in the *Globe and Mail* greeted a “remarkable new governor-general who personifies the free and open country Canada wants to be”.

In the House of Commons this week, a no-confidence vote felled the ruling Liberal government, paving the way for a general election in January—a mere 19 months after the previous one. Nonetheless Canada has many good reasons to feel pleased with itself. Its constitutional motto of “peace, order and good government” may not set the pulse racing in the manner of America's “life, liberty and the pursuit of happiness”. Most Americans probably think of it as a dull old neighbour, when they think of it at all. But peace, order and good government are solid virtues, and still rare enough not only to make Canadians count these blessings but also for millions of people from less orderly places to flock to Canada to enjoy them too.

Uniquely in the rich world, a large majority of Canadians welcome immigration, now running at nearly a quarter of

a million a year, and most nowadays from East and South Asia, with only a murmur of dissent (see chart 1, left). Canadians have happily allowed the inflow to transform the ethnic mix and therefore the colours, flavours and rhythms of its cities. More than half of the residents of Vancouver and Toronto are now said to be foreign-born. In Vancouver, Canada's Pacific gateway to China, Martha Piper, president of the University of British Columbia, reckons that half of her university's Canadian—not foreign—students speak a language other than English at home.



Comfort ye

Wealth lubricates the upbeat mood. Fifteen years ago, ballooning deficits and a prostrate economy made Canada look like a candidate for an IMF rescue. That would have been a bitter humiliation to a member of the G7 rich-country club. Against expectations, a Liberal government elected in 1993 under Jean Chrétien turned the public finances around, so much so that Canada is now the only big industrialised country to notch up consistent surpluses both in its federal budgets and in its trade and current accounts. For five years it has had the G8's fastest growth, driving unemployment to its lowest levels for three decades and producing big gains in incomes, profits and tax revenues. In December 2003 Mr Chrétien's finance minister, Paul Martin, won his reward for presiding over all this by pushing out his boss and taking over as prime minister himself.

The present good times are not the product of fiscal discipline alone. Canada has reaped advantages from the free-trade agreement with the United States that came into force in 1989, and the later North American Free-Trade Agreement (NAFTA). More recently, the economy has been supercharged by booming prices for energy and commodities, of which Canada has an abundance. China in particular has a growing appetite for Canada's energy, metals and chemicals. Such exports helped to lift Canada's trade surplus to a near-record C$66 billion last year. Better still, energy prices have been rising just as some vast Canadian energy investments, such as the Hibernia development in Newfoundland, and the so-called oil sands of northern Alberta, have started to come on stream. Although Canada is already the biggest supplier of oil and natural gas to the United States, these new unconventional sources in Alberta mean that dull old Canada now has the world's second-biggest oil reserves after Saudi Arabia.

Three troubling weather systems

Peaceful, diverse, tolerant (in June gay marriage became legal throughout the country)—and with long-term riches to boot. If this isn't “cool”, what is? However, Canada is a massive country by area, the second-biggest in the world after Russia, which means that it has room for many kinds of weather. Look more closely, and you see three weather systems where turbulence and storms are possible.

The first is in the west, the part of the country that benefits disproportionately from the resource boom. Canada is one of the few countries that has seen exports to China soar, by 40% in the past year. In the next few years, economic growth in British Columbia, Saskatchewan and especially Alberta is expected to sprint ahead. But central Canada's manufacturing base is not part of this bonanza. Over time, the country's centre of gravity will begin to tip westward as the west forges closer links with a rising Asia.

A complication here is that the western provinces, and especially Alberta, have also for many years felt remote from and neglected by the federal government. British Columbia, cut off behind the Rockies, is oriented towards the Pacific, with a diminishing interest in what happens across the prairies in distant Ottawa. Alberta-based firms are investing heavily in oil and gas projects in China. Polls by the Asia Pacific Foundation of Canada found that whereas 70% of people in British Columbia and 39% of Albertans think that Canada is part of the Asia Pacific region, only 28% of Ontarians and 20% of Quebeckers agree. Although the resource boom is only just starting, the west's new wealth may place new strains on Ottawa's ability to hold far-flung Canada together.

The second troubling weather system is in Quebec. When the new governor-general says that the “two solitudes” are a thing of the past, she must be expressing an aspiration rather than describing things as they are. As a Quebecker herself since emigrating from Haiti, she knows better than most that separatist sentiment is burning brightly in the province.

Why it still does so is something of a mystery, given how well the French-speaking province has fared within the federation. After a referendum in 1995, in which Quebeckers voted by the narrowest of margins to remain part of Canada, passions seemed to subside. Nonetheless, in opinion polls this past summer, more than half of Quebeckers questioned said they favoured sovereignty for Quebec. Cool or not, Canada could still break up—a prospect that has haunted its federal government ever since Charles de Gaulle's mischievous speech 37 years ago when he called for a free Quebec.

The third weather system coils along the 5,500 mile (8,900km) border with the United States. Although relations with America have survived many ups and downs, the past few years have seen too many downs. Since September 11th 2001, the Americans have grown twitchier about border security. Trade with the United States makes up around a quarter of Canada's GDP, so the border's closure would be an economic catastrophe. However, managing the unequal relationship with the superpower has lately become more complicated, aggravated not only by a perennial trade dispute over lumber but also by what may be an underlying estrangement in values and politics.

Whether these weather systems will develop into storms, and how much damage they would do, is a matter of conjecture. Canada is a country of ferocious northern winters, whose stoical people are

used to battening down their hatches. Besides, some Canadians love nothing better than a storm: every winter tourists flock to the beaches of Vancouver Island expressly to watch them lashing in across the Pacific. But managing the turbulence will require both luck and political skills of a high order. This survey will describe the three systems in turn, and then ask whether Canada has agile enough politics, and a robust enough economy, to weather them unscathed.

Exchange rates

Canadian $, Nov 21st 2005

US$1=	C$1.18	¥100=	C$1.00
€1=	C$1.39	£1=	C$2.03

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Alienating the west

Dec 1st 2005
From The Economist print edition

Canada gets its very own Texas

CP

Once there was a forest

TO HAVE a full day in Fort McMurray, it is best to fly up from Calgary early. That way you don't have to stay overnight in the place itself. And whereas Calgary is a pleasant metropolis with a brand-new downtown, a view of the Rockies and some wonderful restaurants (if you like steak), Fort McMurray is a drab little settlement in the middle of the nowhere that is Alberta's north. Another reason to catch this flight is to meet the early birds flocking to cash in on the oil sands. When the price of crude is high, they arrive in strength and the little Air Canada Jazz jet fills up. Your bleary-eyed correspondent was crammed next to a team of wide-awake Norwegian oil geologists. Poring over maps, they were trying to work out whether there was any “interesting” acreage left to lease in Alberta's oil sands. Oilmen from Texas, France and China are frequent flyers too.

Fort McMurray is the logistics centre from which the Athabasca oil-sand deposits, the biggest anywhere in the world, are being exploited. The little town is busting at the seams, and the sheer scale of the mining operations around it makes jaws drop. From horizon to horizon, diggers and dumpers, on wheels or tracks, are clawing away topsoil and carting off the black, bitumen-enriched deposits beneath. A spaghetti of pipelines and processing plants straggles over the gouged-out pine forests. In these plants, the viscous bitumen is separated from the sand, converted into crude oil and pumped away to distant refineries. This being environment-conscious Canada, the ripped-up forests are replanted behind them as the diggers and processors move slowly on. One consortium, Syncrude, has imported a herd of bison to graze on reclaimed pasture—in deference, it says, to the customs of the aboriginal peoples who live nearby.

Canada has a reported 180 billion barrels or so of proven oil reserves, of which some 95% are in the oil sands. This is hardly cheap or clean oil, of the sort that gushes obligingly out of the Saudi desert. Separating oil from the sands requires expensive technology and consumes a lot of energy and fresh water. Some techniques require burning copious amounts of natural gas. A few companies are exploring the possibility of using nuclear power instead. All the same, most economists reckon that the oil sands are commercially viable at a world price of around $30 or even less. And the commercially viable price could fall: having invested more than C$30 billion in the oil sands since the 1960s, the industry keeps on finding cheaper and cleaner methods with which to extract and process the oil. In November a Calgary-based firm, Canadian Natural Resources, unveiled plans to spend close to C$30 billion over the next 15 years on the oil sands.

The existence of these reserves in a stable democracy on America's doorstep is good news all round. Top Americans have been trekking to Alberta just to make sure they really exist. America's Treasury secretary, John Snow, was especially interested. “To have our closest ally, Canada, with these resources available, with a natural market in the United States, it's a huge contributor to

energy security for North America," he enthused. Dick Cheney, the vice-president, was due in September until Hurricane Katrina disrupted his plans. Access to the oil sands was also on the agenda of China's president, Hu Jintao, when he visited Canada the same month.

The dark side

And yet although Canadians are not exactly complaining about this new-found wealth, they worry about one aspect of it. Canada's provinces own the natural resources on their territory, and most of the oil happens to be in Alberta, where only just over 3m of Canada's 32m or so people live. Albertans have already grown richer than most other Canadians on the royalties from conventional oil, and exploiting the oil sands threatens to enlarge the gap. This imbalance would be disruptive in any federal system, but for Canada, which tries harder than most to reduce regional disparities, the problem is acute. And a history of bad blood between Alberta and the federal government makes matters worse.

Like its neighbour, Saskatchewan, Alberta did not become a full province until 1905. The federation it joined then was dominated by the English and the French. But many of those who had settled the western prairies—Ukrainians, Russians, Swedes and Poles—belonged to neither of these founding nations. Life on the prairies was hard. The west's grain economy suffered disproportionately in the 1930s depression and did not enjoy the post-war industrial revival that lifted Toronto and Montreal. These people were looked upon as foreigners by the then un-cool rest of Canada. The westerners in turn did not take to Canada's established parties, and formed a habit of creating their own.

As luck would have it, before anyone knew that Alberta was perched on a reservoir of oil, the new provinces were the only ones not given control of their own natural resources. This created resentment from the outset. Albertans already felt that all the big banking and political decisions were made in the east, and to be denied control of natural resources was a blow, not rectified until 1930. And yet natural resources changed the history of the province. When the oil shock of the 1970s drove prices upwards, Alberta's oilfields became competitive. Vast gas reserves were also discovered along with the oil sands.

However, oil also bred new resentment between Alberta and the rest of Canada. In 1980, with the world price soaring, the federal government of Pierre Trudeau introduced a national energy programme, forcing Alberta to sell its oil to Canadians at below market prices. The upshot was that Albertans experienced a recession at a time when other oil-producers did well. The federal government dismantled the hated policy in 1984, but by then the damage had been done. Small places have long memories: nowadays, Alberta has control of its own resources, but its people remain bitter at how the benefits of their oil were denied to them a quarter of a century ago.

Today the boot is on the other foot. The west is thriving, the rest of Canada is falling behind and Canadians have been moving westward. Alberta's share of the population grew from 7.6% to 9.9% between 1971 and 2001, at a time when Quebec's shrank from 27.9% to 24.1%. Taken together with British Columbia, this means that the "Deep West", as it is called by Angus Reid, a pollster in Vancouver, now has roughly the same population (about 7.5m) as Quebec—which in the eyes of many westerners has long enjoyed an unfair share of the federal government's attention and largesse.

The rise of the west troubles Ontario, too. This is the most populous of Canada's provinces, the home of its capital and the country's traditional economic hub. Until recently, its carmakers and high-technology firms looked like the key to future prosperity. But North America's carmakers are in trouble and the information and telecoms sector has sagged. Employment in manufacturing, concentrated in central Canada, has been falling since 1990, and factory jobs are likely to be hit

further as the rising Canadian dollar hurts exports. To the consternation of urban Ontarians, Canada once again finds itself earning most of its living by hewing wood and drawing water. The commodity boom of the past two years has pushed up the share of exports earned by raw materials to more than 50%.

How much does this shift in the economic balance matter? The oil sands will spread growth and add to the federal government's tax revenues. Nonetheless, the west will benefit most, and its good fortune will have some negative consequences for the rest of the country. If it pays far more than other provinces to public-sector workers, won't all the best doctors, nurses and teachers migrate there? Newspapers in central Canada run anxious stories about an exodus of doctors. Not all are lured by money: Albertan officials say that doctors are drawn to the province by the less hidebound western spirit. The innovative Capital Health Authority in Edmonton, Alberta's wintry capital, has become a model of excellence throughout North America.

Alberta may also use its windfall to cut taxes. And Ontario, in the wry words of Finn Poschmann of the C.D. Howe Institute, a pro-business think-tank in Toronto, has a great fear of Alberta's tax regime becoming “intolerably attractive”.

Ontario is in deficit. Alberta has no public debt and is heading for a C$6 billion surplus this year. Oil wealth has already enabled it to avoid retail sales taxes, levy a flat provincial income tax of only 10% and slash corporate taxes. Last year's decision by Imperial Oil to move its headquarters from Toronto to Calgary disquieted Ontario. It feared that more firms would decamp, and wondered if Alberta would need to levy any income tax at all if the surpluses continue to roll in. If Alberta cut taxes in what was already the lowest-taxed jurisdiction in Canada, wailed an editorial in the *Toronto Star*, this would “feed the politics of envy and create huge tensions within the Canadian federation”.

Whose bonanza?

In Alberta itself, opinion is divided about what to do with the windfall. One argument for prudence is that most royalties at present come from conventional oilfields, which will soon be depleted. Since the oil sands will be more expensive to exploit, future royalties will be smaller. Many Albertans therefore urge their government to invest in physical and social infrastructure, not squander its bonanza on tax cuts. In the 1970s the premier of the day, Peter Lougheed, created the Alberta Heritage Savings Trust Fund, which now has assets of more than C$12.2 billion. The fund won Alberta friends by lending on favourable terms to other provinces. However, Alberta stopped topping up the fund in 1987, and the province is nowadays under very different political management.

Like the patrician Mr Lougheed, Alberta's current premier, Ralph Klein, is a Conservative. But he is a different sort of politician—an ideological cousin of America's Newt Gingrich—and has decided that one way to use the oil windfall is to pay a prosperity dividend of C$400 to every Albertan this year. That has raised hackles far and wide. A survey in September by the Strategic Counsel, a polling firm, found that only 26% of Albertans thought their province's oil windfall should be shared to help other Canadians harmed by rising energy prices, whereas 61% of the rest of Canada thought it should. If federal and provincial politicians start to argue seriously about this, “we're going to have a big conflict,” says Allan Gregg, the polling firm's chairman.

Even in Alberta, however, Mr Klein has his critics. “Had [Mr Klein] meant to tell the rest of Canada that Alberta had no idea what to do with all its money, he would have done no different,” complains the *Calgary Herald*. And among those least happy about the premier's antics are the oilmen. “This merely

aggravates an already sensitive situation," says Michael Stewart, principal of Calgary's Ballinacurra Group. Thanks to NAFTA, the federal government no longer has the power it used in the 1980s to tell Alberta how much to sell its oil for. But the oilmen fear that if times got hard, or Ottawa was sufficiently provoked, the "feds" could still find some way to take a bigger cut.

The Calgary effect

Canada's prime minister, Paul Martin, is adamant that he will do no such thing. He claims to be relaxed about Alberta's boom, arguing that the whole country stands to benefit. "Yes, Alberta is going to do well," he said in an interview for this survey. "But are you going to slow down Alberta's growth so that the rest of the country can catch up? No. What we want to do is see Alberta grow as fast as it possibly can, and at the same time we want to see British Columbia growing like gangbusters, we want to see Ontario growing like gangbusters." The prime minister envisages a Canada of many poles: Alberta rich in oil and high-tech industries; British Columbia as a gateway to Asia; Manitoba, Newfoundland and Labrador well-endowed with sources of untapped hydropower; and Quebec rich not only in hydropower but also in high-tech sectors such as biotechnology. "We can do that," he says. "We have a continent here."

It is an uplifting vision, and some Canadians will buy it. But not all of the politicians in Ottawa are so sanguine about Alberta. Bill Blaikie, an MP from Winnipeg and a prominent member of the opposition New Democratic Party, speaks for many when he snorts at Alberta's claim that its oil wealth should be Albertans' alone, just because they have won a game of "geological roulette". Buzz Hargrove, boss of the Canadian Autoworkers Union, says Mr Klein could make himself a national hero if he could find it within himself to share his province's bounty with the country as a whole. But "political leaders in Alberta have never come to grips with the idea that they are Canadians."

Out west, such talk stokes indignation. Was it not the west that gave birth in 1987 to the Reform Party of Preston Manning, whose chief slogan was "The west wants in"? The party was created to address concerns that the western voice was not being heard on the federal stage. One idea the party had was to create an elected Senate (the existing one is appointed) to give regions with smaller populations a bigger say in the working of the federation.

It was not to be. Unluckily for Reform, when the west wanted in, the French-speakers in Quebec were saying that they wanted out. Since the rise of Quebec separatism, the federal government has therefore strained every sinew to prevent the Quebeckers from bolting. It is no coincidence, westerners ruefully note, that since 1968, Canada has spent 36 years under prime ministers from or representing Quebec—and a grand total of 15 months under prime ministers from the west.

Just to complicate matters, people in the west have somewhat different politics from the rest. They are a bit further to the right, with a tendency to produce their own political parties instead of voting for the centrist Liberal Party that has governed Canada for a dozen years. In Calgary—a cow-town, complete with an annual "stampede" and men in Stetson hats—people say their part of Canada is more religious, more individualist and less elitist than central Canada. Alberta contains a concentration of Americans who came to build the railways and then the oil patch. Roger Gibbins, director of the Canada West Foundation, a think-tank in Calgary, says that in a Canada that is largely contemptuous of George Bush and where he comes from, Alberta is sometimes looked down on from Ontario as if it were a Canadian Texas.

Leave us alone

The danger this mutual disenchantment poses to the unity of Canada should not be exaggerated. Western alienation waxes and wanes: it was stronger in the 1930s and 1990s than it is now. With so much money in their pockets, Albertans are no longer demanding “in” to a federation they feel has shunned them. But there is little appetite for secession either. “You can take that word separation and kick it out of the window,” says Mr Lougheed. Right now the west wants neither in nor out, but to be left alone by a federal government it doesn't much like. Five years ago, fear of central intrusion persuaded some Albertans to talk of erecting a “firewall” against the rest of Canada. For the moment, prosperity has banished such ideas.

If there is a danger now, it is a different one. As Albertans continue to ship ever more money eastward under Canada's elaborate redistribution mechanisms, they are bound to ask just how they benefit in return. The questions will become all the sharper if the federal government stops them from pursuing the social model they feel befits an increasingly affluent province. Health is one example. Although this is a provincial responsibility, the Canada Health Act makes it difficult for provinces receiving federal transfers to expand private medicine. The publicly funded health system is seen in much of English Canada as a bulwark of national identity. But why shouldn't Albertans be free to buy health insurance if they can afford it?

To manage the western weather system, the federal government will have to stop itself from interfering with western success and western experimentation—even if some of the decisions a successful west takes seem to threaten broader Canadian norms. The key, argues Gordon Gibson, a scholar with the Fraser Institute, a think-tank in Vancouver, will be “the thorough application of the principle of subsidiarity”. In other words, the federal government must allow the provinces maximum freedom to manage their affairs. The trouble, he acknowledges, is that this rubs against every federal instinct: “Ottawa believes that in order to be relevant it must be deeply involved in the ordinary lives of Canadians.” That is no surprise, given how precarious the federal hold over Quebec has now become.

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A dream that does not fade

Dec 1st 2005
From The Economist print edition

Quebec might yet quit Canada

Corbis

How far will they go?

FOR the past decade, English-speaking Canadians have been hoping that Quebec's appetite for quitting the federation was on the wane. Quebeckers voted no to separation in 1980 and again—though by the narrowest of squeaks (50.6% to 49.4%)—in 1995. To make separation harder, the federal government introduced a “Clarity Act” in 2000. This stipulates that the government would negotiate secession with Quebec only if the question posed in a referendum was clear, and only if a “clear majority” (not defined in the bill) supported secession.

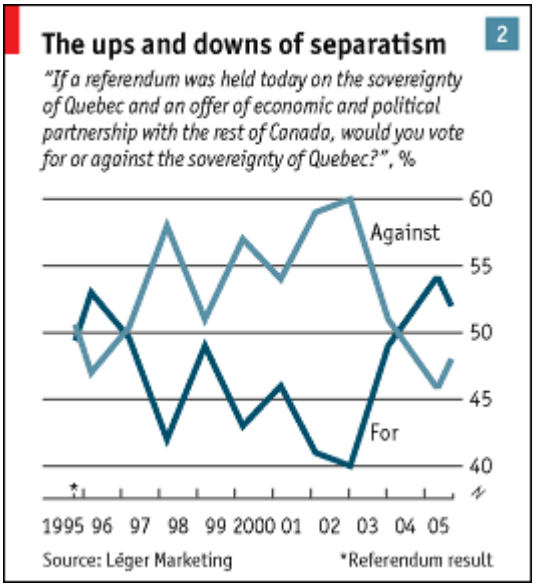
And yet the hope of independence is burning strongly again in Quebec. In recent months, more than half of Quebeckers asked have been telling pollsters that they would vote in favour of sovereignty in a new referendum, thus reversing a long decline in support that started after the failed referendum of 1995 and reached its low point in 2003 (see chart 2).

Nobody can be sure whether this resurgence will last. Some of the reasons for it may be transient. One is that the separatist Parti Québécois (PQ) is now in opposition in the province, and a Liberal government there has grown unpopular since being elected in 2003. At such times, Quebeckers tend to feel more warmly about both the separatists and their ideas. Free from the responsibility of having actually to run Quebec, the Péquistes can devote more of their energy to arguing for its independence. The separatists have also been helped by Quebec's anger at the so-called “sponsorship scandal”—a series of revelations showing that after the 1995 referendum a federal programme to promote Canada in Quebec was riddled with sleaze.

The separatist tide could therefore recede again. The sponsorship scandal has damaged the Liberals, but the next provincial election in Quebec is two years away. Moreover, the Liberals have been in office for only one term, and the province's voters have a habit of giving parties two. The PQ does not at present have a strong, established leader. André Boisclair, who became leader last month, is a clever fellow who is famous mainly for being young, gay and a former cocaine user. So

far he has shown none of the charisma of the party's founder and hero, René Lévesque.

To detach Quebec from Canada will be a Herculean task. The PQ must first recapture the province from the Liberals. Even then, holding and winning a referendum will be hard. For although a majority of Quebeckers say they would vote yes if such a referendum were held, many also say, paradoxically, that they are not at present in favour of holding one.


The ups and downs of separatism
2
"If a referendum was held today on the sovereignty of Quebec and an offer of economic and political partnership with the rest of Canada, would you vote for or against the sovereignty of Quebec?", %
60
55
50
45
40
Against
For
1995 96 97 98 99 2000 01 02 03 04 05
Source: Léger Marketing
*Referendum result

This puzzle highlights the quandary of the Péquistes. A lot of Quebeckers who see the PQ as a desirable government for their province, and may support independence in some abstract way, have little appetite for another bout of angst and turmoil of the sort that convulsed Quebec and divided families and friends in the referendums of 1980 and 1995. "The sovereigntists always get at least 40% or so in polls," says Jean-Marc Léger, president of Léger marketing in Montreal; but this support is "as soft as jello". What they really want, he thinks, is something neither the Péquistes nor the federalists are offering them: a new relationship with Canada that falls short of independence.

Look closer at the polls and you can almost see the jelly quiver. When asked two years ago by the Centre for Research and Information for Canada, 55% of Quebeckers asked refused to describe themselves as either sovereigntists or federalists, with 29% claiming to be somewhere between the two and 26% claiming to be neither. Three months ago, a survey published in the *Globe and Mail* by the Strategic Counsel found that despite the recent surge of pro-sovereignty sentiment, 58% of Quebeckers thought of themselves either equally as Quebeckers and Canadians or as Canadians first, while 40% said they thought of themselves as Quebeckers first.

Moreover, almost all polls show that Quebec's support for independence is tempered by a desire for separation to be amicable. In reality, of course, the federal government would have every reason to signal to voters that it would not be amicable. Indeed, the Clarity Act makes conflict more certain. By failing to specify what is meant by a "clear majority", the act leaves it to Parliament to decide, thus opening the way to a ferocious constitutional battle in the House of Commons.

So the threat of a referendum is a bluff and the federation is safe? Not so fast. For the resurgence in separatism may not be driven only by the unpopularity of the Liberals or the fallout from the sponsorship scandal. It may be a sign that the cause remains durable, but took a decade to recover from the narrow loss of 1995. Moreover, the polls take no account of the vicissitudes of politics. Many supporters of the Péquistes want the PQ to run the provincial government but not necessarily to push the province out of Canada. The problem is that the PQ's leaders don't see things that way.

For Mr Boisclair, Quebec is "a lion in a cage". The party leaders dream of the province taking its place as a near-Sweden-sized nation among nations, and will make no bones about this in the next provincial election. Mr Boisclair promises to put sovereignty at the heart of the campaign. François Rebello, the party's vice-president, says he would rather lose than fight an election that failed to make it clear that a referendum would swiftly follow. And just to make sure, the Péquiste militants—the so-called *purs et durs*—have tied the leadership's hands. The PQ programme stipulates that a Péquiste government must hold a referendum as soon as possible within its first

term of office.

Add all of this up. The timing is uncertain, but at some point the PQ will return to power in Quebec. And at some point after that, Quebec's voters will almost certainly face another independence referendum, whether they want one or not. Once a referendum campaign is under way, and the passions of 1995 are unleashed again on all sides, the outcome will be impossible to predict. Last time round, remember, a mere 54,000 votes stood between Canada staying together and breaking apart.

To non-Canadians, the continuing appeal of the separatist cause looks baffling. In 1967, when de Gaulle made his “Quebec libre” speech in Montreal, French-speaking Quebeckers were a disadvantaged majority in a province whose English-speaking minority dominated business and much else. Francophones had reason to fear for the survival of their culture, language and identity. Two of them—Pierre Trudeau and René Lévesque—developed two theories about how to respond that looked like opposites. Trudeau believed in seizing the federal institutions and giving francophone Quebec its just place at the centre of the Canadian system. Lévesque wanted independence—but in the meantime also to build Quebec statehood from within, via the “Quiet Revolution”.

But were these theories opposites? Three decades on, both have delivered success. As Canada's prime minister, Trudeau created a federation in which French is ensconced as an official language equal with English (even though it is the mother tongue of only 22% of the population), and in which most Canadian prime ministers have hailed from Quebec. In Quebec itself, the Péquistes have meanwhile delivered the cultural and economic emancipation francophones craved. Draconian language laws have demoted English: since the 1970s, perhaps half a million anglophones have simply decamped, leaving behind a province with a dynamic new French-speaking business class and few reasons to worry about cultural submersion. If sovereignty was a means to an end, most of those ends have been brilliantly achieved. So why does the cause endure?

Rebels without a cause

The Péquistes talk about “getting their taxes back”, as if federation were giving Quebec a raw fiscal deal. It isn't. The federal government spends more in Quebec (C$43.1 billion in 2003) than it collects from it in revenues (C$39.8 billion). Indeed, the feds collect more than they spend in only three provinces: Ontario (C$18.1 billion more), Alberta (C$7.7 billion) and British Columbia (C$1.4 billion).

Furthermore, all these numbers will soon change, to Quebec's advantage. A study from the Canadian Energy Research Institute predicted that the federal government would collect C$51 billion in revenues from the Alberta oil sands over the next decade. Why should Quebec separate just as this windfall was about to arrive, especially as its own share, reckons one federal official, would be some C$10 billion?

Corbis

Montreal, 1967: the stirrer and the stirred

It is a puzzle, to which the simplest answer may be this: Quebec wants to be treated as an independent nation because it feels like one—more so, perhaps, than it did when it had bigger grievances. To visit Montreal is to see at once that Quebec is indeed the “distinct society” it claims to be. This is, after all, the world's third-largest French-speaking city (after Paris and Kinshasa), not much farther from Europe than it is from Vancouver, and a good deal closer in spirit. As Jean-François Lisée, an academic at the University of Montreal and a former PQ adviser, puts it, “There exists a nation here that is conscious of its existence and does not quite understand why it is living in its neighbour's nation.”

If only grievances drove nationalism, Quebec's might have faded by now. But self-confidence can drive nationalism too. In 1980, the costs and uncertainties of going it alone in a big world frightened a lot of Quebeckers. Now that they are meshed into a global economy and a free-trading North America, they feel surer that an independent Quebec could prosper. Quebeckers are no admirers of George Bush, but their trade with the United States has burgeoned. They are probably right to assume that in the event of separation, neither the United States nor the rest of Canada would have an interest in pushing them out of NAFTA.

Canada is not, of course, going to break asunder tomorrow: this battle is being fought in slow motion. After all, the PQ is still two years from the first hurdle of winning the next provincial election. If it fails, the Péquistes will have to sit out a further term in opposition before they have another chance. And if in the end they do bring about a referendum, only to lose it for a third time, it is acknowledged even by party members that the damage to their cause might be terminal.

The longer run

In the intervening period, however, two elements in the independence equation will change. First, Quebec's economic health may decline. For reasons that are not well understood, though perhaps because the Quiet Revolution liberated Quebeckers from Catholicism as well as from English domination, the birth rate in the province has been declining for years. By 2012 the active workforce will start to shrink. As in the rest of Canada, immigration is seen as a way to counter this trend, but few immigrants—especially the dynamic Asians—want their children to learn French rather than English. Many of those who arrive in Quebec move on to Toronto or Vancouver.

Adapting to this demographic change will be made harder by the attachment of francophones to the things that delivered prosperity in the past but will hamper reform: *dirigisme*, co-operative savings institutions, powerful trade unions, subsidised electric power, generous public services and

the high taxes to pay for them. Efforts by the Liberal provincial government of Jean Charest to cut income taxes by C$1 billion a year have been thwarted by demands for continued high spending.

The second big change in the equation is that Quebec's weight in the rest of Canada will diminish. Mr Lisée argues that the numbers make nonsense of the idea that the federation has solved the Quebec problem via its Canada-wide policy of bilingualism. In spite of three decades of this policy, he reckons, each generation of French-speakers in Canada outside Quebec and Acadia (the francophone region in New Brunswick) will be half the size of the previous one.

Among the quarter of Canadians outside Quebec whose mother tongue is not English, Chinese-speakers are close to overtaking French-speakers if they have not done so already. In British Columbia, French-speakers are outnumbered 15 times by speakers of other minority languages. For how long, Mr Lisée asks, will the government in Ottawa be able to sustain policies whereby a French-speaker, or an English-speaker who has French, will get preference in hiring in the federal government, or where a French-speaker can get a criminal trial in his language, and a Chinese-speaker cannot?

Out west, where Canadians say they have been neglected while Ottawa has been dancing to Quebec's tune, the prospect of the arrogant province losing some of its power is a cause of quiet satisfaction. In Ottawa, too, some federalists like to think that a poorer and weaker Quebec will drop its mad dream of separation and see the sense of huddling for safety within the federation. But will it? Péquistes such as Mr Lisée argue that the present bargain between Quebec and Canada, under which the province is placated by special treatment, is doomed by the inexorable pressure of demography. As the bargain unravels, people in Quebec may find the case for independence ever stronger.

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Living with number one

Dec 1st 2005
From The Economist print edition

Relations with the United States are fraying

THEIR country, Canadians sometimes say, is 5,500 miles long and one inch thick—by which they mean that most Canadians live in a scattered archipelago of cities huddled along the 49th parallel, the border with the United States. Having a friendly superpower on your doorstep confers great advantages. Uncle Sam can be relied upon to defend the whole of North America. He also has a handy habit of buying your stuff: at least 70% or so of Canada's exports go to its voracious neighbour. So why do so many Canadians believe that the United States is “Too Close for Comfort”, in the title of a recent book by Maude Barlow, head of the Council of Canadians and a fervent critic of both globalisation and George Bush?

AP

September 12th 2001

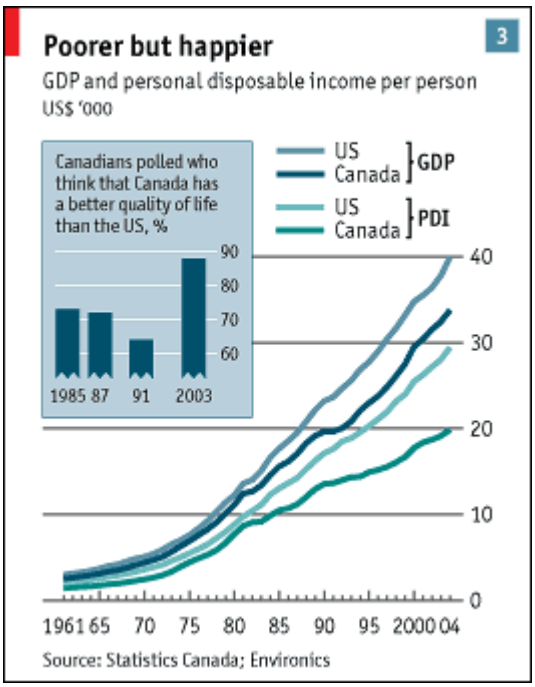
Canadians, you might say, are the original anti-Americans, the people who rejected the American revolution, stayed loyal to Britain and inherited what Desmond Morton, a Canadian historian, has called “the cold, unprofitable remains of the continent”. But the chief cause of the friction is simply the great disparity between the neighbours. The United States has 300m people and a GDP of $12 trillion; Canada has 32m people and a GDP of $1 trillion. California alone is richer and more populous than Canada. As a sovereign country, however, Canada insists on being treated as America's equal. Such a relationship is bound to be fraught.

Counter-intuitively, relations have become harder to handle the more intimate they have become. Since NAFTA, the volume of cross-border trade has trebled. Nearly $700 billion-worth of goods and services cross the border every year, making it the world's largest bilateral trading relationship. But if you trade across an open border with a country that has ten times as many people, and if those people speak the same language, the fear of cultural and economic absorption grows intense. All Canadian governments have worked to strengthen the east-west muscles of federation, the better to counteract the north-south pull of the superpower.

When Paul Martin became Canada's prime minister in 2003, he was expected to rescue relations with the United States from the rough patch they had passed through under his predecessor. Jean Chrétien had decided that in the absence of authorisation from the UN Security Council, Canada would not fight in Iraq (though it did help America in Afghanistan, and continues to do so). Mr

Chrétien's decision was wildly popular at home, and nobody expected Mr Martin to change it, but he was expected to smooth things over. And he certainly had a good reason to try.

The reason is terrorism. In 1999, a terrorist with a fake Canadian passport was caught trying to enter the United States with a car full of explosives, en route to blow up Los Angeles airport. After September 11th 2001 the Americans virtually stopped traffic across the border, for fear that this might be a way in for terrorists. To some thoughtful Canadians, this closure, though brief, was traumatic. The bulk of Canada's manufacturing output is traded, not consumed domestically, and the bulk of it heads south. The just-in-time factories of Ontario and Quebec are joined at the hip with their American suppliers and markets. If September 11th has meant that security now trumps trade, the possibility of some combination of events closing the border, with devastating consequences for Canada, can no longer be discounted.



September 12th 2001

One person especially alarmed by all this was Thomas d'Aquino, head of the Canadian Council of Chief Executives, the club of big business. For him, September 11th was the second time round. In the 1980s he feared that low productivity in the United States, coupled with the import threat from Japan, might make the Americans pull up the drawbridge, leaving Canada in the cold. Now America faces another economic challenge, from China and India, as well as the threat of jihadist terrorism. As Mr d'Aquino and his camp see it, Canada has a vital interest in making sure that it continues to have access to the United States whatever happens. The economic integration of the two countries needs to be made irreversible, he says, and their security indivisible. But how?

Greater America

Canadians are divided. One school favours a “grand bargain” with America. The chief component of this would be a common security perimeter. If the neighbours operated the same controls on their external borders, the “internal” border would dwindle in significance. Together with Mexico, Canada and America might also harmonise more of their safety, health and environmental regulation. Some Canadians go further: why not aim for an integrated labour market, or even a single currency? In March, a task-force of Canadians, Mexicans and Americans, set up by the Council on Foreign Relations in New York, proposed establishing a North American economic and security community by 2010, defined by a common external tariff and an outer security perimeter.

The trouble with a grand bargain is that, even if America could be persuaded to go along, it is anathema to many Canadians. In their task-force report, the advocates of a North American economic and security community argued that the separate approaches to regulation in Canada, Mexico and the United States often boiled down to a “tyranny of small differences”, imposing unnecessary economic costs. But for many Canadians, these small differences are a vital bulwark in the unending struggle to fend off absorption by the superpower.

In the view of those for whom America will probably always be too close for comfort, NAFTA has already narrowed Canada's choices in social and energy policy. Harmonised regulation would make matters worse. Free trade with America, say the naysayers, has whittled away welfare protection and increased income inequalities, sacrificing the Canadian social model on the altar of

“competitiveness”.

Nor is it just opponents of globalisation who are queasy. Roy MacLaren, a former trade minister, says that as America's economy is much bigger than Canada's and Mexico's combined, harmonising trade, security or defence practices would in the end require Canada and Mexico to adopt American standards. Opponents of the grand bargain think it better to shore up a rules-based trading system within the World Trade Organisation than to make an unequal deal with the United States.

For Mr Martin, as for any prime minister of Canada, threading a passage between dependence on the superpower on the one hand and Canadians' widespread suspicion of their neighbour on the other was always going to be difficult. This is a weather system that never goes away. Mr Martin has set up a cabinet committee to deal with the problem. But the clouds have, if anything, darkened on his watch.

Canadians blame Mr Bush. Much of the sympathy they felt for America after September 11th has been cancelled out by what they see as a warmongering foreign policy pursued by a president who ignores the rules and takes dictation from God. Apart from being immensely popular, Mr Chrétien's decision to stay out of Iraq crystallised these feelings and so reduced Mr Martin's room for manoeuvre. Then bad luck reduced it even more. Last August, NAFTA arbitrators looking into an interminable trade dispute between Canada and the United States on softwood lumber ruled in Canada's favour. The bad luck for Mr Martin was that the Americans paid almost no attention.

The gist of this arcane dispute is as follows. The Americans accuse the Canadians of charging low stumpage fees to forestry companies that use crown lands. This, they say, enables Canadian exporters to sell lumber at below-market prices. The arbitrators, finding that Canadian lumber exports had not injured American producers, instructed the United States to drop import duties it started to impose three years ago, and to return those it had already collected. But most Americans hardly noticed this ruling, and the Bush administration, under pressure from its own lumber lobby, did nothing to implement it.

America's insouciance has caused apoplexy north of the border. “Unacceptable,” thundered Mr Martin. A union leader said Ottawa should “turn the taps off on oil and gas exports”. Thomas Axworthy, a former aide to Trudeau, caught the mood in a newspaper article asking whether America's signature on a treaty meant anything at all. He went on to propose ferocious retaliation: reviewing any American takeovers of Canadian energy companies, stopping work on the Alaska gas pipeline and making exploitation of the oil sands conditional on America ending its “harassment”. When Condoleezza Rice, America's secretary of state, on a visit to Ottawa in October insisted that America's record on honouring treaties was “as good as gold”, Canadians reacted with scorn.

In his interview with *The Economist*, Mr Martin's own anger was palpable. Though ruling out the use of oil as a lever, he called America's decision to ignore a ruling by NAFTA's highest dispute-settlement body a violation of both the spirit and the letter of the accord, and he gave warning that America's behaviour would affect other decisions Canada might take. Canadians had talked about alternatives for a long time, he said, and the rise of China and India was now providing them. “We shouldn't kid ourselves,” he added. “The American market is always going to be our most important market. But there certainly are other options.”

Does Canada really have a “China card” to play against the United States? Probably not. When President Hu visited Ottawa in September, Mr Martin pressed the Chinese to buy more Canadian softwood lumber. In principle, Mr Hu also favours more trade. But the plain fact is that the United States, connected to its neighbour by language, custom and business practice as well as geography, is always likely to be Canada's biggest market. To put matters in perspective, note

that the value of the softwood lumber British Columbia sells to China is only 1% of what it sells to the United States.

The anger of Canadians is understandable: the whole point of NAFTA, as sold to them, was that it would set out binding rules for trade disputes. Yet it is troubling that a single dispute should enrage them quite so much. The economic consequences of the argument are minor. Despite the contested duties imposed by the United States, Canadian lumber has 34% of the American market, and lumber anyway represents less than 3% of Canada's total exports.

But, as with a quarrel over cattle, when American ranchers used the discovery of a single case of BSE in a Canadian herd as a reason to suspend trade, Canadians are exquisitely sensitive to any behaviour that smacks of bullying, high-handedness or being taken for granted by the superpower. When Canadians at large feel this way about the United States, a prime minister ignores public opinion at his peril.

That may be why, last February, Mr Martin felt he had to tell the United States that Canada would not help to develop its anti-ballistic missile defence system. Again, the practical implications of the decision may be slight. For the moment, a workable system of this sort is not much more than a gleam in the Pentagon's eye, and Canada is continuing to co-operate with NORAD, the North American Aerospace Defence Command. But the manner of the decision—a last-minute announcement at a time when Mr Martin was being criticised at home for general indecision—surprised and upset the Americans.

Just business as usual?

Is the present scratchiness (see chart 4) just one more down in a history of ups and downs? Canadians are not the only people who have found Mr Bush's America an uncomfortable partner. But there is more to it than the usual gaffes and spats over trade and diplomacy. To find a similar depth of anti-American sentiment, says Michael Adams, president of Environics, a market-research group in Toronto, you would have to go back to the federal election of 1911, when Wilfrid Laurier's espousal of trade reciprocity with the United States cost him re-election. A case can be made that the values of the two countries are drifting inexorably apart.

By and large, Canadians appear to be becoming more liberal and secular at a time when Americans are becoming more conservative and religious. Canadians may decriminalise the use of marijuana and have sanctioned gay marriage. They abhor the death penalty and have invested in a generous welfare state and a system of socialised medicine for all. Foreign-policy differences also run deep. Canada is an enthusiastic proponent of multilateralism, at a time when America has found it convenient to bypass the United Nations. Canada was an architect of the International Criminal Court, which the United States works hard to obstruct, and a ban on landmines, which the Americans oppose.

Whether these signs of estrangement are a passing phenomenon is hard to say. Railing against America's "cavalier and imperial" attitudes, Lloyd Axworthy, a former foreign minister, argues that the shift of political power to the south and west of the United States brings "less understanding or interest in our country". Joe Clark, a former Conservative prime minister, worries about generational change. The leaders of Canada and America are no

longer tied by the common experience of the second world war, and the failure of Canada to fight in Vietnam or Iraq means that a network of personal connections has fallen apart. Indeed, the main thing Americans notice about Canadian foreign policy is its habit of denouncing the warlike things America gets up to in the world—while spending rather little on its own defence.

Demography is also distancing the neighbours. Both are lands of immigration—in 2001 about 11% of Americans and 18% of Canadians were foreign-born—but whereas Canada is importing skilled Asians, the United States is importing unskilled Latin Americans.

Even if the values of the two countries continue to drift apart, geography dictates that they must co-operate. Canada will continue to have an overriding interest in good relations. America will have a growing interest in Canadian energy—and possibly also its plentiful fresh water (with lots of scope for future arguments), to replenish America's parched south-west.

In March, when Mr Martin met Mr Bush and Vicente Fox, the president of Mexico, in Waco, Texas, the three leaders inaugurated a “Security and Prosperity Partnership”, or SPP. This looks far less ambitious than the North American economic and security community proposed by New York's Council on Foreign Relations. Canadian opinion, it seems, is not yet ready for a common security perimeter or customs union. The SPP is little more than a forum for officials from the three countries to discuss a range of technocratic subjects, such as border security and health co-operation.

However, small agreements can blossom into something much bigger: remember the European Coal and Steel Community, which gradually metamorphosed into the European Union. Mr d'Aquino and his business lobby hope for a similar evolution. From the integrators' perspective, one advantage of the SPP is the absence of any “big bang”: the officials can operate below the political radar, without involving the American or Mexican Congress or Canada's Parliament. Nonetheless, says Mr d'Aquino, “by 2010 the North America we know will have changed completely.” For precisely that reason, of course, many other Canadians are on guard against what they call “integration by stealth”. As in relations with Alberta and Quebec, navigating through the shoals will require political skills of the highest order. Does Mr Martin's government have them?

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A funny sort of government

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From The Economist print edition

Canada's dysfunctional politics

Reuters

Martin has no mandate

“BEWARE of what you wish for” might be an apt motto for Paul Martin. Canada's prime minister worked long, hard and—say some rivals—deviously to wrest the party and the premiership from Jean Chrétien, his long-serving predecessor, at the end of December 2003. He was helped by a reputation as the brilliant finance minister who had rescued the country's public finances. However, Mr Martin had no sooner moved into the prime minister's residence in Ottawa's Sussex Drive when things began to go wrong.

His first mistake was to gamble on an early election. He wanted a personal mandate, but at the polls in June 2004 the voters gave him a raspberry, scything the Liberals from 168 to 135 seats in the 308-seat House of Commons and forcing them to govern as a minority. To some extent, this was less a mistake than a misfortune: the election was blighted for the Liberals by the eruption of the so-called “sponsorship scandal” as Canadians learnt that in the late 1990s public funds intended for a campaign to promote federalism in Quebec had been secretly channelled to the Liberal Party and its cronies.

The scandal has continued to dog Mr Martin's premiership, forcing him to concentrate on survival rather than on setting out a clear direction for his administration. In the first half of this year, a series of narrow votes in Parliament threatened to force him into yet another general election. Having lost his majority, Mr Martin had to buy the support of the New Democrats by increasing public spending and postponing promised cuts in corporate taxes. This prompted the Canadian Council of Chief Executives to call Canada “a nation adrift”. The prime minister, the bosses said, was “frittering away” the fruits of years of sacrifice, doling out public money to rapacious local and provincial governments.

By the end of the summer, it began to look as if his luck might change for the better. When the sponsorship scandal broke, Mr Martin appointed a federal judge, John Gomery, to conduct an inquiry. He also promised to hold a general election within 30 days of receiving Mr Gomery's report. But the judge decided to issue two reports. The first of these, published last month, confirmed that the sponsorship programme had been turned into a slush fund for the Liberal Party. However, it explicitly exonerated Mr Martin himself. The second (and blander) part of the report, on how to prevent another such scandal, is not expected until February.

Reuters

In principle, this might have let Mr Martin postpone his promised election until next spring, by when voters would have tired of the scandal. But the opposition parties chose to topple the government earlier, hoping to derive maximum benefit from the scandal's fall-out. By defeating the government in a no-

confidence vote this week, they have forced Mr Martin to call a fresh election in January. Even so, the outcome is uncertain. Odd though it may seem, Canadians look fairly likely to elect a minority Liberal government yet again. Although the Conservatives have enjoyed a post-Gomery bounce in the opinion polls, it may not carry them to victory.

Harper has little hope

Stephen Harper, the Conservatives' leader, is an aloof, cerebral figure, disparaged well beyond Liberal circles as a neo-conservative importing dangerous ideas from the United States. Though hardly radical by most of the world's standards, Mr Harper has alienated many Canadians by his opposition to gay marriage and his reservations about abortion.

Locking out the Tories

So the Liberals may survive the sponsorship scandal. But the affair points to a deeper malaise in Canada's politics. It is worrying that the Conservatives are considered unable to win even when the Liberals are laid low by scandal. Long periods of domination by a single party are not good for the health of any democracy, let alone one in which power at the national level is highly centralised. Canada's prime minister enjoys remarkable powers of patronage: it was, for example, Mr Martin who appointed Canada's glamorous new governor-general. He also controls appointments to the Supreme Court and the Senate. Such a system would matter less if there were more frequent rotation in government. Why is there so little?

It is not just the person and position of their present leader that holds the Conservatives back. They are a party divided, formed by a merger in 2003 between the Progressive Conservatives and the Canadian Alliance. These western roots may have tugged the merged party too far to the right to win a majority in a country where two out of three people tell pollsters that, if they could vote in American elections, they would vote Democrat rather than Republican. A party that is perceived to have strong religious influences, as the Western Alliance did, and a programme that is perceived as socially as well as economically conservative, as the Conservatives' is under Mr Harper, faces a daunting challenge.

Beyond ideology, which they could change, and a poor leader, whom they could sack, the Tories are plagued by a structural problem they may not be able to rectify. This is their chronic weakness in Quebec. The reasons for their unpopularity stretch back into history—not least to the conscription crisis of the first world war, when Quebeckers resented the Tories for trying to make them fight for the British crown. Brian Mulroney, it is true, delivered Quebec for the Conservatives in 1984 and 1988, but he enjoyed the advantage of being a Quebecker himself, who had formed a coalition with the province's nationalists. For a Quebecker to lead the Conservatives now that they depend so much on the west would be hard.

Worse still for the Tories, Mr Mulroney failed to make good on his promise to persuade the rest of Canada to recognise Quebec as a distinct society. This led to the collapse of the Conservative vote in the election of 1993 and the emergence of the Bloc Québécois, a federal counterpart of the Parti Québécois, now with 53 seats in Parliament. In federal elections, it is now the Bloc that scoops up anti-Liberal votes in Quebec. The Tories do not have a single seat in a province that contains a quarter of Canada's electorate. This puts a formidable obstacle in their path to power.

What of the other parties? The New Democratic Party is a socialist party from the old world that is ill at ease in the new one and has yet to find its Tony Blair. It appeals at most to about a fifth of

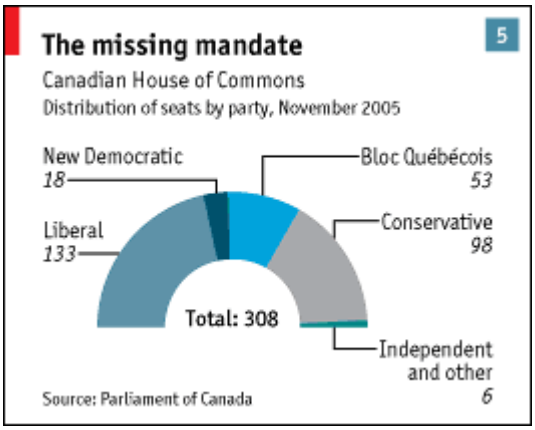
the electorate, but not to the Asians and other business-friendly new Canadians in the vote-rich urban areas. The Bloc Québécois has a capable leader in Gilles Duceppe, but a party based in a single province can never win federal power—and as the champion of sovereignty for Quebec does not want to. This leaves the Liberals in command of the squishy centre where so many Canadians feel they belong, and with a valid claim to be the only party with truly national appeal.

Cheques and imbalances

Good for the Liberals. But how good for Canada? In fairness, the power of a Canadian prime minister is offset by checks and balances outside Parliament. One is the existence since 1982 of a popular Charter of Rights and Freedoms, invigilated by an increasingly active Supreme Court. But the strongest countervailing power is that of the provinces. If the Liberals are the natural party of government, says Philip Resnick, a political scientist at the University of British Columbia, the real opposition is at the provincial level, “where you find strong fiefs and strong premiers”. The premiers are all the stronger because the constitution gives the provinces responsibility for almost all public services, including health, education, justice and the management of natural resources.

As in all systems of checks and balances, however, the arrangement has its costs. Some are all too obvious, such as inter-provincial barriers to commerce: for example, Canada has 13 separate securities regulators. Others are hidden. Perhaps the biggest is that Canadian politics is dominated not by arguments between strong national parties, competing over ideas and policy, but by chronic jurisdictional quarrels between the different levels of governments, mainly about transfers of money.

Canadian politicians love to blame other layers of government for their woes. Toronto's mayor, David Miller, blames the Ontario government for suffocating a metropolis that should have the planning and spending powers of the city state that it has become. Ontario's premier, Dalton McGuinty, blames his province's woes on the perverse decisions made in Ottawa. Mr Martin has a federal initiative for cities but dare not step into a provincial responsibility. And so forth. In particular, Canadian politicians are locked in an endless and circular squabble about what they call the “fiscal imbalance”.



The problem is this. Both the federal government and the provinces have tax-raising powers. But because most of the expensive services are provided by the provinces, the feds run up surpluses whereas the provinces (except Alberta) struggle to make ends meet, especially as an ageing population drives up the costs of health care. The federal government doles out a lot of the money it raises to the provinces, in the form of block grants and equalisation payments designed to ensure a rough equality of provision. But this gives rise to complaints that the federal government is robbing Peter to pay Paul, and using its spending power to muscle in on provincial jurisdiction.

To a lot of Canadians, this chorus of intergovernmental grumbling has become little more than background noise. They are used to Mr McGuinty, say, blaming the fiscal imbalance when for reasons largely of Ontario's own making he cannot balance his budget. And although Mr McGuinty spent this summer calling for a royal commission to find out why the federal government takes more money from Ontario than it returns, most Canadians have no quarrel with the basic principle of taking from richer provinces such as Ontario and Alberta in order to help poorer ones such as Newfoundland.

Even if that principle is accepted, however, the fiscal imbalance, and the habit of buck-passing, create a deficit in efficiency and accountability which politicians at all levels find it convenient not to reform. “Why should governments act responsibly as spenders if they do not have to collect their own taxes?” asks Gilles Paquet, a senior researcher at the University of Ottawa. In health care, for example, it can be argued that the federal cash doled out to the provinces merely helps provincial governments to avoid necessary reforms.

In a national health accord in 2003 the provinces did promise that, in return for the money, they would report on their progress towards federally inspired targets, such as shorter waiting times. But the agreement contains no enforcement mechanism; and if Ottawa imposed one, the provinces would object on constitutional grounds. Benoît Pelletier, Quebec's minister of inter-governmental affairs, already moans that the feds are abusing their spending power. “They want progressively to be the architects of the vision with the provinces as the executors,” he says. Quebec, characteristically, has opted out of the requirement to report back.

Roger Martin and James Milway, from the University of Toronto's Institute for Competitiveness and Prosperity, have a different objection to the way the system works. They concede that federal transfers have helped to reduce differences in income levels between provinces. But by transferring money from high- to low-productivity uses, this lowers average productivity in all regions. That would matter less if more of the federal surplus was spent on the sort of investment that might help the poorer provinces to grow faster in future. But the bulk, they say, is spent instead on consumption.

Canada is indeed peaceful and orderly, just as its founding arrangements say it should be. But its compliance with the third constitutional requirement, good government, is less impressive. It desperately needs national parties able to mediate between the centre and the provinces. And yet the Conservatives are trapped in their western base; and Quebec, though declining, has a lock on the national leadership. Albertans almost always have Conservative governments, and Canada as a whole almost always has Liberal ones. Single-party government is no healthier in a province than it is at the centre. The only effective opposition to the Conservatives in Alberta is the federal government. And the main opposition to the Liberals in Ottawa is not the opposition parties there but the provincial premiers.

“The parties have really failed this country,” says Roger Gibbins of the Canada West Foundation. “In that sense we are locked into a dysfunctional system.” Perhaps this does not matter so very much. Canadians like to quip that Canada works in practice even if it doesn't work in theory. But couldn't it work a little better?

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The perils of cool

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From The Economist print edition

Canada has everything, except perhaps ambition

MEASURED by almost any standard you care to think of, Canada is a success story. Apart from being physically beautiful, politically stable and socially tolerant, it is rich. Canadians enjoy the sixth-highest GDP per head in the OECD, which makes them better off than the Japanese, Germans and French. The UN Human Development Index rates Canada the world's fifth most agreeable country to live in. The federal government's relations with the west, Quebec and the United States may be testy, but are unlikely to change any of these fundamentals in the foreseeable future. It is tempting to conclude a survey such as this by advising simply: apply for citizenship now.

A land of golden opportunities

That would be a little too kind. For Canada does have some flaws, many of which are merely the obverse of its virtues. Its enlightened social policy is accompanied by a sometimes stifling political correctness: an American writer living in Toronto calls Canada “the dictatorship of virtue”. Canadians dislike conflict, so politicians tend to leave divisive issues—the fate of Quebec, policy towards the aboriginal population—unresolved or for the courts to settle. Wary of succumbing to the culture wars that have polarised America, Canada's political debate is tepid: most people seem happy to gather around an unadventurous liberal (and Liberal) consensus. As befits the people who rejected the American revolution, Canadians distrust big ideas, preferring to put their faith in a proven ability to muddle through.

The price of all this is a certain complacency. And the price of complacency is a certain lack of ambition. This may explain the attitude of Canadians to the one significant measure by which they do fail: they are poorer than their next-door neighbours, and the gap is widening. According to a study by the University of Toronto's Institute for Competitiveness and Prosperity, in 1981 Americans were C$1,800 per person better off than Canadians; by 2003 their financial advantage had increased to C$7,200. Many Canadians affect not to mind about this prosperity gap. There is more to life than money, they say, and it is worth being a little poorer if that is the price of preserving their social model: a kinder, gentler and more egalitarian capitalism than the heartless version they detect south of the border.

It sounds admirable. But this proud-not-to-win attitude—what one Canadian diplomat has bewailed as a “passion for bronze”—misses the point. If Canadians were more productive, the whole society would be richer. And although the extra wealth might be used for personal consumption, it could also, if Canadians preferred, be used to increase social spending. Besides, the point of comparing their performance with America is not that Canadians are in a win-or-lose race with a neighbour that happens to have one of the most dynamic economies in the world. The point is to test whether they are making the most of their own endowments.

The productivity numbers suggest that they may not be. Canada outperforms America in some sectors. It claims its carmakers are far more efficient. But its overall productivity growth has fallen behind in recent years. Since 2000, business-sector output per man-hour in Canada has grown by 0.9% a year, compared with 3.5% in the United States, according to Andrew Sharpe, director of the Centre for the Study of Living Standards, a think-tank in Ottawa. This means that the gap has become much bigger. Whereas in 2000 Canada's output per man-hour was 82% of America's, it is now only 75%. “Relative to the United States, our productivity performance has dropped off a cliff,” the Council of Chief Executives told the House of Commons at the end of September.

As in all productivity debates, the true size of this gap, the reasons for it and the implications are all hotly debated, but low investment is thought to be a prime culprit. According to Danielle Goldfarb and William Robson of the C.D. Howe Institute, this year's fixed capital investment per worker by American firms will average nearly C$2,700 more than that of their Canadian counterparts. Canada also spends proportionately less on R&D and trains a smaller share of scientists and engineers to postgraduate level.

The country has a disproportionately small number of big firms, which tend to spend most on research and have the best productivity performance. Its share of self-employed workers is almost twice as big as America's, and some 69% of its private-sector employees work in firms with fewer than 100 people. “We are among the best places in the world for an entrepreneur to establish a business,” says Jock Finlayson, executive vice-president of the Business Council of British Columbia in Vancouver. “But many fail and most don't grow.”

Some of these features are structural and therefore hard to change. Canada's industrial mix contains a smaller share of high-value-added sectors than America's. And one cause of low foreign direct investment in Canada is the magnetic lure of America itself. The default option for multinationals (including Canadian-controlled multinationals) chasing the mighty American market is to invest in it directly. Indeed, NAFTA has strengthened this preference: American firms that used to open plants in Canada to sell into its protected market no longer need to. Another deterrent to investment might be the deeper penetration of trade unions north of the border—which Canada will not be able to change at the stroke of a pen.

Tax is a more suitable case for stroke-of-the-pen treatment. Canada's marginal tax burden on capital is higher than America's, and Mr Martin's Liberals seem to have accepted the argument that bringing down the high rate of corporate tax would encourage investment. The government has already made some modest cuts and promised more. But as a minority government since June

2004, the Liberals have had to keep the New Democrats in Parliament sweet. One victim of Mr Martin's political weakness may be the former finance minister's famous fiscal discipline: federal spending last year rose by a worrying 15%. Another could be the promised tax reductions, which the NDP opposes. Although the prime minister insists that they will be implemented as planned in 2008, the legislation has been delayed. A pro-productivity mini-budget unveiled in mid-November may not survive an early election.

What will happen to Canada if all the weather systems identified in this survey turn nasty at once? Assume that the sovereignty movement continues to strengthen in Quebec. Assume that in the coming election voters return another minority Liberal government that does not have strong support in either Quebec or in the west. And assume that Alberta continues to pile up annual surpluses of C$8 billion or so one after another, separating itself even further in wealth and values from the rest of the federation. What then?

Canada would probably not break up. It is held together, among other things, by what Gordon Gibson of the Fraser Institute in Vancouver disparages as “sentiment and inertia”, but which are nevertheless very powerful forces. But nor would it have a strong central government capable of mobilising the country behind bold social or economic initiatives.

That would be a pity. Admiring economists at the OECD note that the sacrifices Canada made in the 1990s to put its finances in order have left it in the enviable position of being able to focus now on the longer-term impediments to growth. In Mr Martin, the architect of the previous reforms, it has a prime minister ideally placed to do this. But for all his technocratic talents, Mr Martin has been bad at focusing on anything since becoming prime minister. Such is the strength of its resource-boosted economy that Canada can still be relied on to do well. But what a waste it would be if dysfunctional politics made it miss its chance to go for gold.

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Think-tanks

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Online retailing

Clicks, bricks and bargains

Dec 1st 2005
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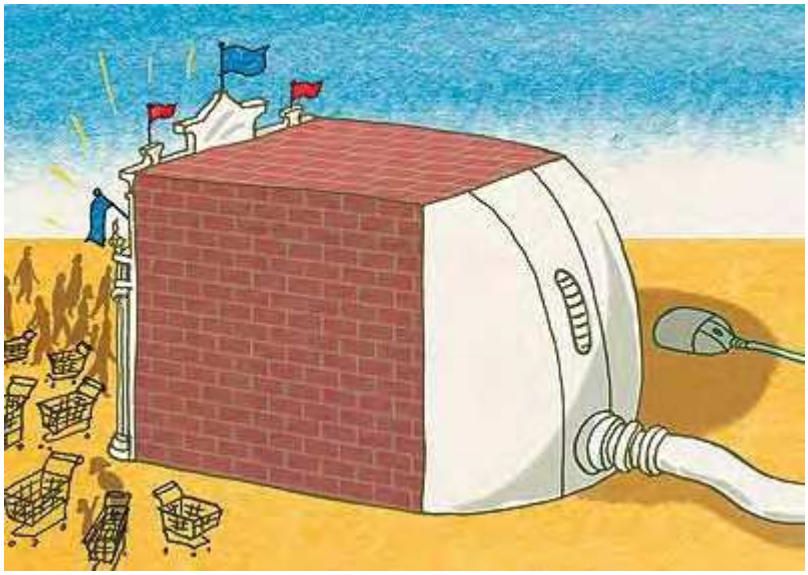


The internet was supposed to batter traditional retailers. Instead they are coming to dominate it

IT'S a new phenomenon called “Cyber Monday”. On November 28th millions of Americans returned to work after the Thanksgiving holiday and fired up their office computers to take advantage of high-speed internet links and continue the arduous task of hunting for Christmas presents. Visits to some retail websites more than doubled and Visa reported that online spending by its card-holders grew by 26% compared with the same day a year ago.

Despite concerns about a fall in consumer confidence putting the brake on store sales, online purchases are soaring in most countries. But something else is happening, too. Increasingly, the websites run by conventional retailers—once considered dinosaurs of the bricks-and-mortar age—are growing the fastest. Indeed, on Thanksgiving day itself, the number of visitors to Wal-Mart's website exceeded those visiting Amazon—the first time that has ever happened, says Hitwise, which monitors internet usage.

Online sales in America (excluding travel) are expected to grow to more than $19 billion in the crucial two months running up to Christmas—24% more than the same period last year—according to comScore Networks, a research firm. Online sales of toys, computer games, clothing and jewellery are all more than 30% higher.

In many countries the websites run by eBay and Amazon get the most visitors. Both are considered “pure internet plays”, since they have no physical shops. But their business models have changed markedly and they now resemble online versions of vast department stores, where

thousands of big and small third-party merchants also offer their wares. During Thanksgiving in 2004, Amazon for the first time sold more consumer electronics than it did books.

Amazon was the company that proved online retailing could be a huge business—and it still leads the pack. But things are changing quickly. The rise online of mighty Wal-Mart, the world's biggest retailer, is being closely followed by its chief supermarket rival, Target, which now operates the fourth-most-popular retail website in America. In Britain, Argos, a catalogue merchant, is the third-most-popular retail site, followed by Tesco, the country's biggest supermarket chain.

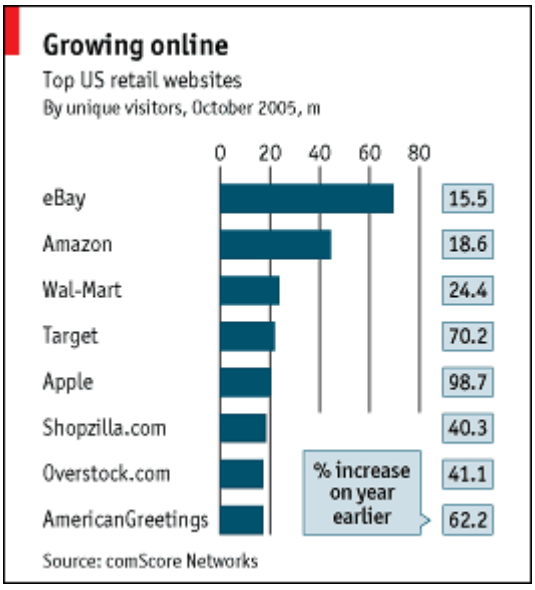
Europeans are surfing the web in record numbers and almost half now visit retail websites, especially those of traditional merchants. According to Nielsen//NetRatings, the leading retail websites in Europe include Germany's Tchibo, a diversified chain; OTTO, a German mail-order specialist; and Fnac, a French high-street favourite.

Far from wrecking retailers' businesses, the web plays to their strengths. Shopping-comparison sites, including America's Shopzilla and Ciao in Europe, are among the fastest-growing destinations on the web. These sites allow users to compare products, read reviews—and most important of all—see who is offering the lowest prices. They make money from advertising or charging retailers when users click on a link to the retailers' website.

With huge economies of scale it is hardly surprising that giants such as Wal-Mart often emerge as the vendor offering the cheapest prices. Besides attracting an online purchase, shopping-comparison searches can also be used by ordinary retailers as a relatively cheap way to advertise and attract consumers to their physical stores.

The traditional retailers are finding many other advantages in expanding their stores online. One is that in cyberspace, even the biggest supercentre is unconstrained by planning laws or dogged by protests, as Wal-Mart often is when it tries to expand offline. Both Wal-Mart and Target also use the web to test the market for certain products before they send them to their stores.

Conventional shopkeepers might be late coming to the internet, but they now realise that they can offer more to their customers online, and that the technology required to do so is relatively easy to use, says Michael Silverstein of the Boston Consulting Group: “Retailers are starting to recognise that their most profitable customers...find the convenience of an online offering complementary to an in-store experience,” he says. As examples of successful exponents of this in America, Mr Silverstein points to Neiman Marcus, which has taken a lead in online top-end fashion, Victoria's Secret in lingerie and Circuit City in consumer electronics.



Circuit City was a pioneer of the “pick-up in-store” option, which is proving increasingly popular with internet shoppers. Around half the customers buying goods online from Circuit City collect their purchases at a shop. For this holiday season the company is offering what it calls a “24/24 Pick-up Guarantee”: if goods ordered online or over the telephone are not available for collection at a local store within 24 minutes of purchase, the customer can claim a $24 gift voucher.

Apart from instant consumer gratification, why would someone want the convenience of buying online only to trek to a store to take delivery? There are, it appears, many reasons. Some people

want to examine items before they accept them; some want to save on delivery costs; others want to avoid hanging around for the delivery man to call. But for many, the chief reason is that they trust a big retailing brand with a local store—not least because they will know where goods can be returned if there is a problem.

With more than 3,700 stores in America alone, this hands Wal-Mart another big advantage. It is developing services that link the web with its stores, such as e-mailing digital pictures and picking up the prints.

Does this mean retailing giants will come to dominate the web just as they do the high street? Some might carve out large chunks of cyberspace. Tesco, for instance, has a huge 30% share of the British grocery market. Online it is even more popular: Nielsen//NetRatings says almost 70% of online shoppers plan to buy groceries this Christmas from tesco.com.

But even the big traditional retailers still face competition online. For instance, Wal-Mart may have more than five times the annual sales of Target, but Target's website is growing faster and, according to some analysts, the average value of an online sale at Target is roughly three times more than one made online at Wal-Mart. This is one reason why Wal-Mart is now offering more upmarket goods on its website, including diamond rings.

So, should Amazon have stuck to books? Jeff Bezos, its founder and chief executive, does not think so and likes to plug his site, with its growing army of other traders, as offering “earth's biggest selection”. Nevertheless, he is spreading his bets. These days Amazon also sells its e-commerce experience, helping to run the websites of big, traditional retailers such as Target and Britain's Marks & Spencer.

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European defence

Consolidate or die

Dec 1st 2005 | ROME
From The Economist print edition

More mergers to come in Europe

AP

European defence seeks lift-off

GENUINELY pan-European companies are rare beasts in most industries. And defence—with all its strategic sensitivities—is something national governments always guard closely. But if a European defence industry is to prosper, some consolidation across national lines is necessary. So European defence ministers have just called for measures to open the industry to cross-border competition, by making bidding for defence contracts more transparent.

But nationalist instincts die hard. Just a week after the EU declaration, the German government was under attack for trying to block a French company from buying Atlas Elektronik, a German defence firm. Most of Europe's defence industry remains a collection of national fiefs. Consolidation has generally taken the form of large national champions acquiring small firms in their own countries, or in countries with tiny defence industries. Cross-border collaboration tends to be based on multinational joint ventures such as the tri-national consortium formed to build the Eurofighter aircraft. The one big exception has been the formation of the European Aeronautic Defence and Space Company (EADS), which in 1999 merged French and German companies.

Are there more mergers to come? The main candidates seem to be Thales, a French firm, and Finmeccanica of Italy, numbers three and four in Europe after Britain's BAE Systems and EADS. Pier Francesco Guarguaglini, the boss of Finmeccanica, says he is open to a combination of its defence electronics activities with Thales. Last year his company took full control of Agusta Westland, a helicopter joint-venture, which it set up in 2001 with GKN, a British defence group. Mr Guarguaglini's strategy is to make inroads into the more lucrative American market for defence procurement, by becoming the world's leading helicopter producer. He is bidding for a big American helicopter contract, in partnership with two local contractors.

Finmeccanica's boss thinks a new wave of European defence consolidation is a big part of any

effort to be globally competitive. But he may face competition for a deal with Thales, which is 31% owned by the French government. There is new talk about a merger between Thales and DCN, a French state-owned naval defence company; Alcatel, a French telecoms company, is also interested; and so is EADS. But the German partners in EADS are wary of introducing a new French company into the group, for fear this will transfer too much power to Paris. Even in a proudly pan-European defence firm, you can never quite banish national rivalries.

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Economist.com BUSINESS

Pharmaceuticals

Merck's migraine

Dec 1st 2005 | NEW YORK
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Has Merck fixed its problems, or are there more to come?

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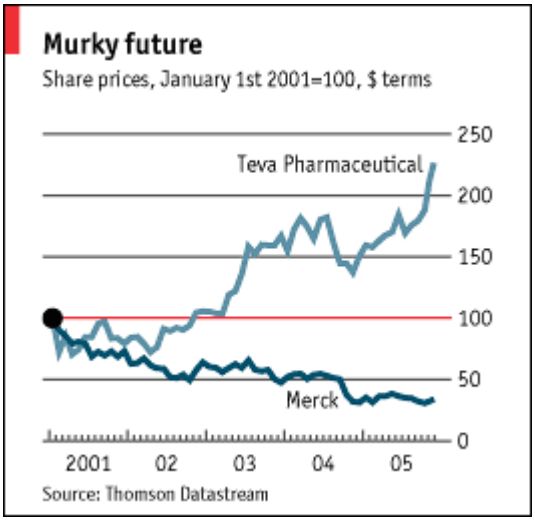

ANNOUNCING plans this week to lay off 11% of its workforce and close or sell five of its 31 factories, Merck, the world's fifth-biggest drug company, said these were just the first steps to cut costs and boost efficiency. Investors promptly cut Merck's share price too, by almost 5% on the day. It was always good to see a company getting leaner, analysts said—but with Merck, there were other things to worry about. One of them is the overhang of some 6,400 lawsuits brought by users of Merck's anti-inflammatory drug, Vioxx.

Merck withdrew Vioxx last year after a study showed that prolonged use of the drug could increase the risk of heart problems. The company lost a first Vioxx trial in a Texas state court in August, and won a second in a New Jersey state court earlier this month. This week marked the start of the first Vioxx trial in a federal court, also in Texas, where almost half the cases are due to be heard. Merck has vowed to fight all the cases, and has set aside $675m for legal costs. It is anybody's guess how much the cumulative damages could reach if Merck starts losing badly. Figures running into the tens of billions of dollars are bandied around the stockmarket.

But even that, from an investor's point of view, is not the biggest risk. With pre-tax profits last year of almost $8 billion, and plenty of cash reserves, Merck can stare even legal disaster squarely in the eye. The biggest question is whether Merck can discover enough new blockbuster drugs to make up for the ones on its books that will lose their patent protection in the next few years. Once that exclusivity lapses, the same drugs can be produced much more cheaply by generic manufacturers, such as Teva of Israel, whose business has been booming in recent years (see chart).

David Risinger, an analyst with Merrill Lynch, has called Merck's plight the “even-year curse”. The patent for Zocor, the firm's top-selling anti-cholesterol drug, expires in 2006. The patent for Fosamax, an osteoporosis drug, the firm's number-two product, expires in 2008. Two more bestsellers, Cozaar (for hypertension) and Singulair (for respiratory problems), lose patent protection in 2010 and 2012 respectively. Even allowing for the promising products in Merck's pipeline, such as Gardasil, a vaccine against cervical cancer, Merck's earnings in 2012 could easily be stuck roughly where they are now, says Mr Risinger.

Throwing yet more money into research might be part of the answer, but certainly not all of it. Merck's spending on research has levelled off this year, after almost doubling since 1999. Some

sort of x-factor is needed to turn research reliably into products. Nurturing it is the main job facing Richard Clark, Merck's newish chief executive, who took over this year. Depending on his success, he could be remembered as the man who gave Merck back its mojo—or who managed the company's decline.

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Economist.com BUSINESS

Data security

Demon in the machine

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Privacy laws gain support in America, after a year of huge violations

IN THE industrial age, factories spewed out soot and sludge that polluted the environment; in the information age, companies leak data that can also expose the public to harm. When it came to pollution, politicians and even industrialists eventually agreed on the need for regulation to keep factories in check. This is now happening for privacy protection in America.

Legislation is moving through Congress to combat identity theft, which the American government estimates costs as much as $50 billion annually. Around 20 bills were drafted this year following a series of leaks at credit-card data-processing firms and other businesses, which exposed the personal information of more than 50m individuals. The breaches were disclosed only because of a pioneering California law that forced firms to tell people if their personal data had been leaked.

The Californian law may now serve as a model for America as a whole. The drive for national privacy rules has support from an unexpected quarter: American business. Seven years ago, America went to the brink of a trade war with the European Union over its privacy directive, which requires that companies explain what data they are collecting, and that they protect the data, let people correct them, and control how they are shared. American firms claimed then that this would be costlier and less effective than self-regulation. Now business itself is urging Congress to adopt similar measures.

In November Brad Smith, the general counsel of Microsoft, told the Congressional Internet Caucus that the software giant had reversed its position and now supports a robust national privacy law to apply to all companies, on- or offline. Today's rules covering data protection are an overlapping and inconsistent jumble, he said. A federal law would simplify life for business (by pre-empting the gaggle of state rules) and foster citizens' trust.

A practical example of how even the biggest brands can alienate consumers came last month, when it was revealed that millions of CDs sold by Sony BMG surreptitiously contained a secretive computer program to prevent copying on a PC—yet left around 500,000 computers vulnerable to viruses. The company, after initially playing down the problem, has scrambled to recall nearly 5m CDs and provide a software fix in the face of public outrage and threatened lawsuits.

So many details need thrashing out that Congress is not expected to pass privacy legislation until next year. It is still possible that federal legislation—which focuses mainly on commercial data brokers—will be used to water down stronger state laws. Meanwhile, the European Commission is reviewing the impact of the EU privacy directive, which went into force in 1998. It may add a requirement, similar to the Californian law, that companies suffering a data breach inform the public. The Europeans, who prided themselves on leading the world over privacy legislation, may now end up copying privacy rules from the other side of the Atlantic.

Economist.com BUSINESS

The grey market

Hey, big-spender

Dec 1st 2005 | TOKYO
From The Economist print edition

Japan leads the world in developing new products for the elderly

BY 2015, one in four of all Japanese, or 30m, will be over 65. Already, more than 25,000 Japanese are over 100, and that number is going to rise fast. After all, average life expectancy, now 82, is growing by almost 2.5 years every decade, while Japan's big baby-boom generation is just about to start moving into retirement. It is all causing a good deal of hand-wringing among policymakers contemplating a growing burden for the state and for a shrinking workforce. But it is also causing a good deal of hand-rubbing among businessmen, who see older Japanese as a source of profit.

AFP

Granny's companion, a Snuggling Ifbot

One of the biggest challenges will be providing affordable care for more elderly, including the great majority still able to live at home, but no longer with their children. Bringing in cheaper, foreign nurses and carers is not an option in a political climate that is so averse to immigration (a proposal to allow Filipina nurses and helpers sets the annual quota at no more than 200—though the government was last year happy to grant more than 80,000 “entertainment” visas to young Filipinas). So Japanese businesses, true to form, are developing suitably high-tech responses.

For instance, one Nagoya-based company, Synclayer, which makes and integrates cable television and local-area networks (LANs), has developed a means for old people still living at home to use a device that takes basic medical measurements, such as blood pressure and temperature, and sends them to a local health database. The medical services can then act if anything seems amiss. Synclayer also makes a sensor that can be placed, on (for example) the fridge door; every time the door is opened, a message is sent over the LAN to the database, and from there health workers or family members can be alerted if there is no fridge-going activity.

The pioneer in bringing peace of mind to family or neighbours is Zojirushi, Japan's biggest maker of rice cookers and electric kettles, which in Japan keep water hot all day for tea or miso soup. Zojirushi's iPot, developed with NTT DoCoMo and Fujitsu, has a wireless device which transmits a message to an NTT server when the water-dispensing button is pressed. Then, twice daily, the usage record is sent to the designated mobile phone or e-mail address of family or friend.

A lot of work is being done on interactive robots that talk to the elderly. Those on the market now are chiefly for comfort and stimulation: for instance, the Snuggling Ifbot, which lives in an astronaut suit, chats about the weather, sings and plays quiz games. Primo Puel, an interactive doll, has become an unexpected hit with elderly single women: it was originally designed for another group of lonely people, boyfriendless young girls.

But, increasingly, the development work on robots is designed either to assist the old with physical functions such as bathing or lifting things, or to monitor health and well-being. A government report this year guessed that annual demand for “service robots”, ie, those not used for manufacturing, could top ¥1 trillion ($8.4 billion) by 2015, and the elderly are likely to be among the biggest customers.

Some products with the elderly in mind are designed for ease-of-use. In a saturated market for mobile phones, Japan's second-biggest mobile company, KDDI, has had success among older people with its Tu-ka phone, selling more than 100,000 subscriptions. Mobile handsets in Japan aimed at the young have reached astounding levels of complexity—offering large LCD screens, digital cameras, internet access, the ability to download music, navigation systems, and so on; the manual for this baffled correspondent's phone runs to 400 pages. By contrast, Tu-ka phones are marketed on the strength of their simplicity; they look and work like traditional telephones.

Making niche products for the elderly may be one way to make money out of them, but perhaps not the chief way. Mariko Fujiwara, a research director at the Hakuhodo Institute of Life and Living, points out that not only are the Japanese living longest in the world, they are also living the healthiest. So with longevity come sharply reduced odds of being bedridden for long at the end of your life. Elderly Japanese go in great numbers to *pokkuri dera*: temples dedicated to the idea of going to sleep never to wake up. That, increasingly, is how the Japanese are dying.

The implications for business are that healthy Japanese pensioners are living normal lives for longer: in other words, they have consumption patterns that are not that different from those of younger people, although they tend to spend more on services and less on goods. They also have a lot more time and money. The average Japanese in his 60s has total net assets of ¥21m; he will have fewer children than earlier generations, and after a steep fall in house prices over the past decade, those children no longer need so much financial help. It means more for the old to spend. Ignore this bunch at your peril.

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Economist.com BUSINESS

Religion and business

Onward, Christian shoppers

Dec 1st 2005 | WASHINGTON, DC
From The Economist print edition

Corporate America has spotted the elephant in the room—religion

THE Walt Disney Company has long been a bogeyman of the religious right, thanks to its penchant for organising “gay days” at Disney World and offering benefits for same-sex couples. Yet on December 9th legions of Evangelical Christians will queue up to watch Disney's “holiday” blockbuster, its $150m production of C.S. Lewis's “The Lion, the Witch and the Wardrobe”. The bogeyman has turned into a bearer of Good News.

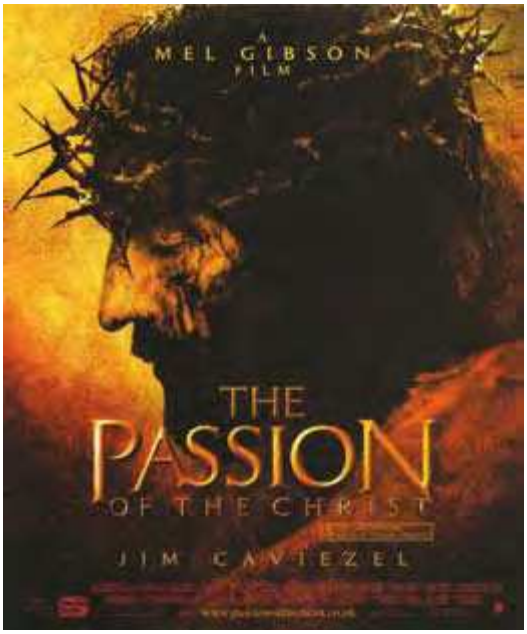
The reconciliation between Evangelical America and Disney is the latest example of a bigger trend—the reconciliation between religious America and corporate America. Many of America's biggest media companies are pushing into the religion market. At the same time, many of America's “faith-based” companies are pushing back, into the mainstream.

The first big company to spot the potential of the religion market was Rupert Murdoch's HarperCollins, which brought Zondervan, a religious publisher, back in 1988. Now almost all the big publishing houses have religious lines, most of them acquired in the past few years: Random House has WaterBrook and Time Warner has Warner Faith. EMI and Sony have both acquired Christian music labels. Hallmark Cards bought the Arkansas-based DaySpring, America's largest producer of Christian greetings cards, in 1999. NBC has hired Amy Grant, a heroine of the Christian music world, to present one of its prime-time programmes on Friday evenings, “Three Wishes”. Not so long ago, people who wanted to buy Christian diet books or Christian detective stories had to go to specialist Christian stores. Now you can find them at your local Wal-Mart—along with a whole library of other Christian books.

The reason for corporate America's new-found interest in religion is simple: the market is booming. Packaged Facts, a market-research company, estimates that the “religious products” market was worth $8.6 billion in 2003 and will grow to $8.6 billion in 2008. Christian radio has seen its market share expand from 2.2% in 1999 to 5.5% today. The Association of American Publishers reports that the market for religious books grew by 37% in 2003. The definition of religious books is vague—but religious publishing is undoubtedly growing much faster than the industry as a whole.

Even if the religious bit of the media industry is still relatively small, it accounts for a disproportionate share of the “mega-hits”. The “Left Behind” series of novels on the end of days has brought in $650m. Bantam Dell, a mainstream publisher owned by Germany's Bertelsmann, has reportedly paid Tim La Haye an advance of $45m for the next series. “The Purpose Driven Life ” by Rick Warren, an evangelical preacher, is the best-selling hardcover book in American history, with more than 25m copies sold. Christian blockbusters are dragging a huge flotilla of other Christian products in their wake—from

“praise the Lord backpacks”, in camouflage colours, to Christian dieting books such as Don Colbert's “What Would Jesus Eat”.



The prophet motive

Hollywood has been slower to react, thanks to a combination of institutional lethargy and cultural blinkers. But Disney's support for C.S. Lewis's children's classic reflects a realisation that the industry needs to learn how to tap into what insiders call “Passion” dollars. Mel Gibson's “The Passion of the Christ” has grossed $370m so far despite being in Aramaic, Hebrew and Latin and despite the lack of a major Hollywood distributor. Its success sent shock waves through Hollywood.

The reason the religious market is booming is simple: religious America is booming. John Green, of the University of Akron in Ohio, calculates that there are 50m Evangelicals in America. He argues that Evangelicals are growing as a share of the population. They are also getting richer, in part because the Evangelical heartland of the South is booming and in part because richer people are joining the cause. Jane Friedman, the head of HarperCollins, adds that the surge in religious books is matched by a surge in spiritual books, as an ageing baby-boom generation looks for “meaning”. This can be seen in everything from the success of religiously-flavoured books like Dan Brown's “The Da Vinci Code” to the popularity of New Age gurus like Deepak Chopra.

The religious market comes with a ready-made distribution channel in the form of churches (America has more than 330,000 of the Protestant variety alone). Larry Ross, the head of A. Larry Ross Communications in Dallas, Texas, which specialises in the religious market, points out that films based on the “Left Behind” series became hits without ever being screened in cinemas; churches showed them. Religious Americans also do much of the marketing themselves, spreading the message by word of mouth. Mr Gibson promoted “The Passion” by talking to prominent religious figures, who then encouraged their flocks to purchase large blocks of tickets. “The Purpose Driven Life” became a best-seller because it became a staple of church sermons and church study-groups.

Greg Stielstra, formerly Zondervan's chief marketing man (who has to his name 88 best-sellers, 20 number-one best-sellers and eight books that have sold more than 1m copies), calls this “pyromarketing”. Rather than promoting people and goods through mass-market media such as television, pyromarketing relies on “consumer evangelists” who spread the word among like-minded people.

Pyromarketing to Christians has worked best in the media, but it can apply to a huge range of businesses. Marian Salzman, a New York-based advertising guru, points out that there are Christian real-estate networks, banks, financial advisers and dieting circles. As customers, she says, Christians are particularly interesting because they are “incredibly loyal” and will go out of their way to patronise a Christian business. Across the South it is common for Evangelicals to mark professional advertisements with a cross in order to attract the custom of fellow Evangelicals.

One company warmly approved of by Evangelicals is Chick-fil-A, a chain of chicken restaurants whose management is so devout that it closes all its restaurants on Sundays. This is not a strategy that would be recommended at the average business school. But it has proved no bar to the success of Chick-fil-A, which racked up sales of $1.74 billion last year across the United

States. The company is now one of the fastest-growing restaurant chains in America, but proclaims that its “first priority...has never been just to serve chicken. It is to serve a higher calling.” Its story is explained by the company founder S.Truett Cathy, in his book, “Eat Mor Chikin: Inspire More People.”

Christianity has always been central to the purpose of Chick-fil-A. But the fact that most other big corporations have only recently discovered God, makes some Evangelicals worry that they might be getting into bed with Mammon. Zondervan is part of the same publishing house as Regan books, which publishes “How to Make Love Like a Porn Star”, by Jenna Jameson, and Avon, which publishes “The Satanic Bible”. Back in 1992 some of the staff of Zondervan tried to buy out their company to retain its purity.

Render unto Caesar

In fact, the arrival of the media giants has led to many fewer disasters than predicted. News Corporation, Bertelsmann et al have been sensible enough to give their religious subsidiaries plenty of latitude. Zondervan has lost none of its old character: it is based in Grand Rapids, Michigan, and its corporate lobby is highlighted by a life-sized bronze sculpture, “the divine servant”, showing Jesus washing Peter's feet. Random House set up its WaterBrook subsidiary in Colorado Springs—the command-centre of Evangelical America.

Meanwhile, the traditional faith-based media companies have fought back. They are getting more business-like in the way they run their affairs. The Christian Booksellers Association helps its members plan marketing and publicity. Independent Christian booksellers are clubbing together to form purchasing groups in order to compete with the big retailers. Just like their secular counterparts, the religious media companies are exploiting new technology. Zondervan distributes a collection of short bible-study videos that combine state-of-the-art graphics with interactive techniques; it is also preparing a digital Bible that can be loaded on to iPods, a technique popularly known as “Godcasting”. Services at megachurches don't just rival rock concerts in terms of their audiences (30,000 every Sunday at Lakewood Church in Houston); they also rival them in terms of their “production values”.

While some Christians remain uneasy about the effect of big business on their faith and message, the benefits are clear. Corporations have brought more advertising and sponsorship dollars to Christian America. Bishop T.D. Jakes, the pastor of a megachurch in Dallas, persuaded a group of well-known companies, including Ford, Coca-Cola and Bank of America, to sponsor his Megafest conference this summer. Corporations have also provided Christian artists with bigger audiences for their ideas, not to mention bigger rewards for their efforts. When Joyce Meyer, a Christian war horse, joined Warner Faith, for example, she more than doubled her sales. Two decades ago Christian recording artists could not get their work into mainstream outlets such as Wal-Mart and Tower Records. Now you can pick them up along with the latest records by Satan-worshipping heavy metal bands. That, surely, is progress.

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Economist.com BUSINESS

Face value

Saving Fiat

Dec 1st 2005
From The Economist print edition

Landov

Sergio Marchionne thinks he can salvage Italy's flagship company

IN LATE 2004 the Fiat group was sinking fast. It was trying to offload its car business, Fiat Auto, on to General Motors through an option that obliged GM to buy out Fiat shareholders if the Italians wanted to sell. GM, the world's leading carmaker, laughed off the challenge. A year on, Fiat is picking up speed, while GM is in deep trouble. Freshly divorced from GM, Fiat is courting Ford and other partners for various joint ventures.

The Italian firm's fortunes started reviving last December when Sergio Marchionne, a little-known businessman who had become chief executive of the Fiat group six months earlier, strode into the office of Rick Wagoner, his opposite number at GM, to argue about the put option, which dated from the two firms' ill-fated alliance in 2000. “You should have seen their faces fall,” says someone present. “As soon as Mr Marchionne opened his mouth, they realised he was one of them: North American.” Reminiscing in his office while the stereo plays cool, logical Bach rather than passionate Puccini, a shirt-sleeved Mr Marchionne points out, “I think and count in English.”

His family emigrated to Toronto when he was 14, and the young Marchionne qualified as a solicitor, barrister, accountant and tax specialist, as well as studying business at a college in Windsor, Ontario just across the Detroit River from GM's imposing head office. Nine years of higher education equipped the Canadian-Italian to see off GM's legal brains, with the commercial argument that the option represented value to Fiat group shareholders and so had a price. Rather than enter a protracted battle in the American courts, GM coughed up $2 billion to get Fiat off its back and scrap their alliance.

Mr Marchionne went home and personally took control of Fiat's troubled car business, while

remaining in charge of the group. “It was such a big danger to the life of the group”, he says. “I can't devolve responsibility. All our strategic choices for the group are of no value unless we can fix the car business.” There is plenty to deal with. In 2004 losses of €2 billion ($2.5 billion) in cars (which account for just under half the company's €49 billion sales) dragged the whole group into a 1.6 billion loss. The group's Iveco trucks business and CNH farm and construction machinery firm were being undermined by the car losses. This year cars will still make an operating loss of around €360m, but the group is expected by analysts to make a pre-tax loss of only €129m, thanks to solid profits from the truck and tractor divisions. The ability of Mr Marchionne to hit his financial targets is beginning to impress investors: in October Fiat Auto reported a 70% fall in its third-quarter loss, compared with a year earlier.

Since settling the GM affair, Mr Marchionne has taken an axe to Fiat's bloated managerial bureaucracy and changed its tone from a paternalistic, engineering one to an Anglo-American focus on markets and profits. With the money from GM and the conversion of €3 billion-worth of maturing bank loans into equity in September, Mr Marchionne has moved on to reindustrialising Fiat. While his charismatic chairman, the well-connected Luca di Montezemolo, deals with politicians and the unions, Mr Marchionne is trying to rebuild the car business panel by panel. Although its Italian factories are operating at barely 80% of capacity, Mr Marchionne is not about to provoke a crisis, as his predecessors did, by closing more of them. Instead, with surplus workers parked in state-run unemployment schemes, he is investing €10 billion over the next four years to bring out 20 new models to win the sales to fill factories.

For too long, Fiat has pinned its hopes on the next new model. “Always counting on the next horse out of the gate,” says Mr Marchionne. “But you need to learn to breed lots of winning horses.” The first test will be the new Stilo in the lucrative mid-sized segment of the market traditionally dominated by Volkswagen's Golf. The first Stilo looked too much like a German car for Fiat loyalists. Now Mr Marchionne wants every Fiat car to be the epitome of Italian style and recognisable at a distance.

Risk-sharing alliances

Yet he understands the economic realities. Alfa Romeo is Fiat's sporty brand, but its models tend to be 90-day wonders, bursting on the scene to rave reviews and then fading fast. BMW sells about 200,000 Minis with one model, while Alfa sells many fewer of a handful of models. From now on, all new Alfas will be made from the same basic platform, to reap economies of scale. Likewise Maserati will be repositioned at the top end of the Alfa range and will also share components to cut costs. This is product planning and production in the manner of Toyota, the car company most admired by Mr Marchionne.

He also admires PSA Peugeot Citroën, the French group that has risen in the past seven years as Fiat has declined, thanks largely to the judicious use of alliance partners to share risk on specific projects. No longer shackled to GM, Fiat is forming lots of similar ventures: it has three with PSA, a new one with Ford (to build a small car in Poland), a licensing deal with Suzuki, and is exploring co-operation with India's Tata and China's Shanghai Automotive. Fiat envisages not only building cars in India with Tata, but also co-operating in Europe and South-East Asia.

The Agnelli family first spotted Mr Marchionne when he turned round a Swiss quality-assurance service company, SGS. Mr Marchionne nearly tripled its value, making the Agnellis lots of money. After the death of Fiat's chairman, Umberto Agnelli, the family turned to Mr Marchionne, already on the group board. After hesitating for 48 hours, he accepted. He says the big test will be next year, when he is committed to making a profit on cars. To do that, several of Fiat's new models, such as the new Alfa 159, must be hits. Italy's chief private company may be on the road to recovery, but life is tough in Europe's fast lane, with too many cars chasing too few customers.

Economist.com BUSINESS

Outsourcing in eastern Europe

The rise of nearshoring

Dec 1st 2005 | BUDAPEST, TALLINN AND WARSAW
From The Economist print edition

Ex-communist Europe is grabbing a lucrative niche in the global outsourcing business

IN a nondescript Soviet-era building in a suburb of Estonia's capital, Tallinn, is one of the telecommunications world's most important research outfits. It is the development centre for Skype, a software product that allows free, or very cheap, phone calls from any internet-connected computer. Skype is a global company recently bought by eBay, an internet auction site, for $2.6 billion. Its Scandinavian founders used programmers not from pricey Silicon Valley or faraway India, but from a small east European country that has barely figured on the business landscape in software, or anything else.

That is one face of what those involved like to call nearshoring: the business of moving production, research and business processes to countries that are quite cheap and very close rather than very cheap and far away. On the other side of Tallinn is another face: the factory of Elcoteq, a Finnish firm that makes mobile phones for Nokia and other companies. Whereas Skype employs more than 130 highly paid people, around a fifth of them foreigners, with an average age of 28, Elcoteq's factory workforce is big (more than 3,000), middle-aged, performs repetitive, semi-skilled tasks, is modestly paid and entirely local.

The story of outsourcing in central and eastern Europe these days is that Elcoteq's model is struggling to stay competitive, while Skype's is booming. The region's most obvious advantage, low labour costs, is diminishing, partly because of the even greater price advantage in China and partly because of the upward drift in wages brought by the march of prosperity. That is leading companies to hunt much harder for lasting advantages—based on talent and geography, rather than low wages and plentiful labour.

By the standards of the former captive nations' rocky past, that is still a nice problem to have. In

the early 1990s, when Elcoteq opened in eastern Europe, even owning a factory there seemed risky; outsourcing crucial development work would have seemed mad. Bureaucrats were capricious, logistics dreadful, telephone lines bad, business manners eccentric. Doing deals needed strong nerves, iron-clad innards and relentless patience. “It's like Africa, but closer,” was the dismissive view of one western executive, struggling in the Lithuanian textiles industry in 1993. In those days simply getting a lorry to Poland could involve a weeklong wait at the congested and corrupt border crossing.

Now eastern Europe is beginning to look different: much more like China than Africa, closer geographically and culturally than either, and easier to do business in. Since the collapse of communism, habits, attitudes and values have changed out of all recognition. Economies that were teetering on the verge of hyperinflation only 15 years ago are now preparing to adopt the euro. The European Union has imposed a familiar legal environment; even those like Romania and Bulgaria, still outside but hoping to join, are at least heading in the right direction. Politics may be murky, but are rarely worrisome.

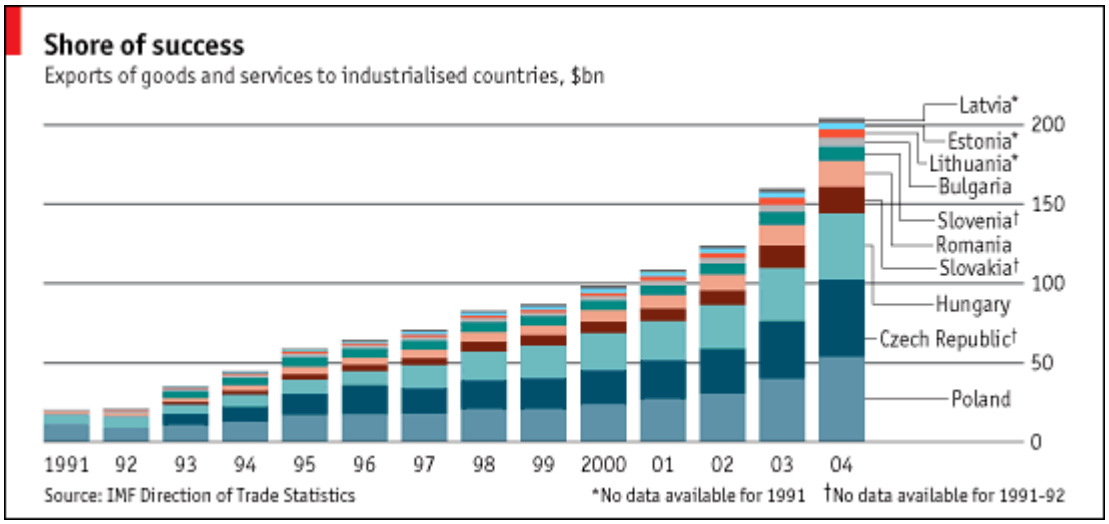
So western contracts and investment are flooding into eastern Europe. The annual value of outsourcing contracts is hard to estimate—it includes everything from big companies that own factories to small contractors doing one-off deals. But it's clear that the phenomenon is sizeable and growing. Clothing imports from the east European countries into the existing EU in 2004 were 2 billion pieces, with a value of €22.3 billion ($25 billion), representing a 19% share of the EU's clothing imports, according to Liz Leffman of Clothesource, a consultancy. Libor Krkoska, an economist at the European Bank for Reconstruction and Development, reckons that the best proxy for the growth in outsourcing is the post-communist countries' total trade (see chart) with the rich world.

So far, the biggest fuel for the boom has been wage costs that are typically still half western levels. Tünde Gulyás of Colling, a Hungarian consultancy that helps firms outsource backroom processes, chiefly accounting, reckons that wage costs are 50-60% below western levels in eastern Europe; in India they are 75% cheaper.

Best in class

In the Czech Republic alone, that has prompted companies such as DHL, Siemens and Lufthansa recently to move big data-processing operations there. “The quality of work is world-class. It matches and sometimes even surpasses the best we do in India,” says Amitabh Chaudhry, chief operating officer of Progeon, a division of India's Infosys IT group that deals with business-process outsourcing. It has opened a centre in the Czech city of Brno, with roughly 100 people working in 13 languages. Mr Chaudhry also highlights the friendly time-zone, good political and regulatory environment, multilingual workers and “cultural affinity”. “We couldn't have handled this from India,” says Ratnesh Mathur, who runs the Brno centre. Infosys has a further office in Prague, supplying around 100 IT support staff to multinational companies there.

That highlights an essential point: cost is only part of the picture. “If I want a huge English-language call-centre, or to design an aircraft engine using tens of thousands of man years, I will go to India,” says Stephen Bullas, whose company eCODE assesses outsourcing locations. “But if I want a small controllable team of telesales people, or back-office workers with a cultural fit to the continental EU or Britain, then it can be much more appropriate to choose an east European country.”



It is the same story in manufacturing, For time-insensitive goods and long production runs, China is still the clear winner for global factory relocation. But when businesses need products finely tailored and delivered quickly and flexibly, then eastern Europe scores highly.

In the garment industry, for example, foreign companies are doing a booming trade with east European countries in the business of “fast fashion”—ordered and manufactured in speedy response to sales trends. “Fast fashion is a pound or two more per piece from central and eastern Europe, but customers are prepared to pay,” says Ralph Goodstone, a textile entrepreneur who brokers deals between low-cost suppliers and rich-country customers. The product cycle for garments from China, he explains, is about three months—with four weeks of that time spent at sea. From eastern Europe, by contrast, it is just four to six weeks, including a day or two for delivery by lorry.

So, too, with fashionable electronic gadgets. “Every brand owner has several models; the lead time and the lifecycle of the product are shortening. So it makes sense to localise to the area of sales,” says Risto Gaggl, Elcoteq's boss in Tallinn. For the next few years at least, there are still big gains to be made in this field. Surprisingly, despite EU and NATO membership, many find the region unfamiliar and scary. “People still ask questions like ‘Will my mobile work?' and ‘Do you have a McDonald's?',” says Ms Gulyás of Colling wearily.

But there are disadvantages too. It is not just steadily rising costs: rising productivity can cushion that, at least in part, and labour may be only a small component of the ultimate price. The biggest shortcoming is a legacy of communism: a shallow talent pool, particularly for middle managers who need to be customerfocused and conscious of quality. These were not qualities that the planned economy demanded. Mr Goodstone's most recent deal, with a Latvian supplier, has been hobbled by the gulf between each side's expectations: “They throw up their hands and say, ‘Oh Ralph, we're only a couple of weeks late—our customers round here never worry about that'. When they run into problems they think: ‘Oh we'll sort it out', but you can't—you have to get it right first time.”

Other industries are also short of managers. At a recent outsourcing conference in Budapest organised by Ms Gulyás's firm, a bunch of consultants and providers swirled round Jackie Raybould, a director of SCC, a $3 billion company that is considering moving its expert multilingual IT support for big international companies from call-centres in London and southern Europe to somewhere like Hungary. “There's a ready pool of IT-literate, multilingual graduates. But the management experience isn't as developed,” says Ms Raybould. “For programming it would be fine, but we're talking about direct services to customers. If we wanted to deliver this

from central and eastern Europe, we would need to manage it ourselves."

The big question at the cheaper end of the market is how to sort out middle-management. In manufacturing, the danger is that badly run businesses will perish before they have a chance to prosper. Mr Goodstone reckons that without better bosses, the mass-produced garment business in central Europe will be "dead in five to ten years". Call-centres are rather better placed, as central Europe's language skills give it a big advantage over most other locations. German, French and English are all widely enough spoken to create a good pool of potential workers. And other languages can be learnt quickly. One Bulgarian call-centre, for example, reckons that it takes only four months to teach German-speaking employees to answer calls in Dutch as well.

It can be taught

Part of the problem is simply size. The top ten east European countries' combined population is around 100m. Vietnam alone is 81m. The answer is to go upmarket with better education. But that's something that every post-communist country is still grappling with. Schools and universities have still to reform Soviet-era pedagogy and curriculums, and are often short of both capacity and teaching talent. "We need a lot more engineers, yesterday," says a senior Elcoteq manager. His company and others now sponsor university faculties in the hope that high pay will bring bright graduates back to dull-sounding, difficult disciplines such as computing and production engineering and away from soft subjects such as marketing, law and economics that flourished after the collapse of communism. But good east European managers tend to gravitate to such industries as information technology, which pays world-class salaries. Pawel Zak, who manages the Polish operations of IMPAQ, a German-owned IT outsourcing company, recalls: "in the beginning we had good programmers and the project managers were all expats. But we did a good job learning from them."

A quick fix is to rely on expats from western countries to bridge the gap. But that is pricey. The new trend in central Europe is for investment by firms from other outsourcing locations in places such as China, India and Turkey. Firms there are eager to gain an edge on their rivals by moving closer to the customer. Turkish entrepreneurs, for example, have bought textile factories in neighbouring Romania, installing new management there. That takes advantage of local labour costs, and brings big productivity gains. A big Hong Kong-based trading company, Li & Fung, has opened offices in two east European locations. Infosys is just one of several big Indian software companies with newly opened offices in central Europe.

In the long run, says Mr Chaudhry of Progeon, "geography is history". His company will sell where clients get most value, get capital where it is most abundant, find resources in the most cost-effective location and organise production where it is most convenient. That is true—but presents a demanding future for former captive nations still struggling with the basics of modern business life. The big question now is which of them best grasps the opportunities in outsourcing, and which will let them slip by. "The cost is pretty much the same," says Ms Gulyás. "The difference is the impression they create."

Location, location

Stephen Bullas of eCODE says that although no single country is ideal, Poland is "truly open for business". The Czech Republic, though improving rapidly, "can still be too bureaucratic". He recalls recently a firm there that "snatched defeat from the jaws of victory" by refusing to convene the early board meeting needed to close the deal (the contract went to the second-placed Polish company). Hungarians have "great technical ability", he says, but can often be complacent, harking back to the imperial Austro-Hungarian era and "thinking the world owes them a living".

Despite impressive IT skills, the Baltic states will win only a niche in the business unless they start co-operating with other countries in the region. Romanians largely “still don't get it—they smoke in client meetings and cite official corruption as a competitive advantage,” he says. That's a pity: in eCODE's comparative analyses, Romania is the most multilingual country in Europe after the Netherlands for potential business-process outsourcers and it can also demonstrate above-average IT skills.

The good news is that pressure to stay competitive is slowly forcing governments to acknowledge and remove bureaucratic barriers. Czech and Polish officials promoting their countries at the Colling conference in Budapest shifted nervously when questioned about archaic, restrictive labour laws and intrusive bureaucracy. “They don't understand that a call-centre can't just close down because of a national holiday,” complained one outsourcer. In Estonia, companies such as Skype want the government to liberalise the country's tough visa laws. “We wanted to interview a Pakistani guy living in Stockholm and we couldn't get him over for a weekend—it was easier for us to go there,” complains Sten Tamkivi, Skype's boss in Tallinn.

A more business-friendly environment can help maintain an edge, but in the end the prosperity that it brings inevitably forces change. Allan Martinson, a Tallinn-based financier, reckons that Elcoteq has at most four more years before it will become necessary to switch production to Russia. The value-added it creates in Tallinn, he calculates, is only half that achieved by the country's notoriously inefficient timber industry. But by then another niche will have come along. The Estonians working at Skype, he says, have now seen how a world-beating young company works from the inside. Next time, they will want a big chunk of the action for themselves.

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Bulgaria

Blowing hot and cold

Dec 1st 2005
From The Economist print edition

Life at the front line for an IT firm

STEVE KEIL is a hotshot American boss hired by Sciant, a Bulgarian software company, to make it internationally competitive. After three years, he is crackling with frustration and has just opened an office in Vietnam. “My aim is to have four employees there for every one in Bulgaria,” he says. It will be a big shift: the firm has 150 employees in Bulgaria and just four in the new office.

Mr Keil maintains that costs are crucial. And Bulgaria, despite being one of the poorest post-communist countries of eastern Europe, is losing ground. Outsourcing is close to being a commodity, Mr Keil explains, and Sciant is losing out to Asian competitors, including nominally communist Vietnam, where taxes are low or negligible, officialdom actually helps, and qualified and willing labour is plentiful.

The comparisons are striking. In Vietnam Mr Keil expects to pay no taxes on monthly wages below $500; there is a VAT and customs duty exemption, and eight years of no profits tax. By contrast, he pays heavy social and health-insurance costs for his Bulgarian workers; profits are taxed at 15%; and, worst of all, the administrative burden is huge. He has the equivalent of three full-time employees dealing with the state bureaucracy. Their work includes meeting arcane record-keeping requirements on workers' pay and conditions, and getting the right stamps on the right bits of paper for the sleepy customs service. It normally takes two days or longer to release an incoming shipment. But Mr Keil counts his blessings: “I have a friend whose things were stuck in customs for four months.”

Bulgaria's new government has set up an office specifically to deal with the problems of small firms. But more worrying is the education system. Teachers' skills are outdated and corruption is rampant. The shortage of good people is chronic, as everywhere in eastern Europe. The universities in Ho Chi Minh city, he says, produce more computer-science graduates each year than the entire stock of such geeks in (admittedly much smaller) Bulgaria.

The sole remaining advantage to doing business in eastern Europe, Mr Keil reckons, is geographic proximity. Whereas American companies treat outsourcing as a commodity, where all that matters is what you can get for how much, European customers are relatively new to outsourcing, and tend to be somewhat nervous. If something goes wrong, they want to be able to jump on a plane and confront the problem in a couple of hours. For that privilege, Mr Keil reckons, it is possible to charge European clients about 20% more than more distant providers can extract. It is within that slender margin that Bulgaria's hopes of competitiveness lie.

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Exchanges

Good times rarely last

Dec 1st 2005
From The Economist print edition

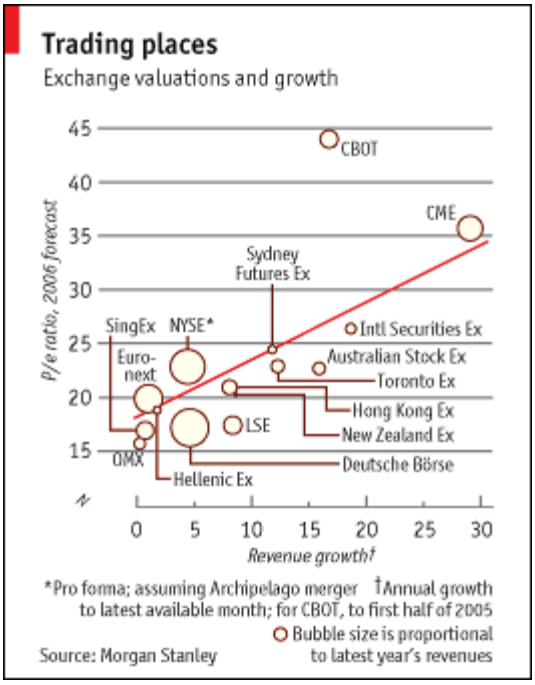
Financial exchanges are booming, but this is no time for complacency

TWO hundred and thirteen years ago, a group of brokers and merchants signed an agreement under a buttonwood tree in lower Manhattan. They thereby created a securities-trading system that was the forerunner of the New York Stock Exchange (NYSE). Until recently, the NYSE was a bastion of tradition, sticking to member-ownership and floor-based, face-to-face trading. Now it recognises that technology and speed rule the day. On December 6th the exchange's seatholders—who are also its owners—are due to take a vote that will thrust it into the modern trading era, by merging it with Archipelago, a quoted electronic exchange, and turning it into a listed company.

The transformation of the NYSE is just part of the change sweeping through financial exchanges on both sides of the Atlantic. Technology is making trading faster and more automated. It is opening up new opportunities for some, but making competition more intense for all. Demutualisation has allowed some exchanges to raise pots of cash, but has also exposed their managers to sometimes unwelcome pressure from shareholders. And regulation is forcing many exchanges to reconsider long-established ways of doing business.

One upshot of all this is consolidation. The NASDAQ stockmarket, also in New York, plans to acquire Instinet,

another electronic exchange. There is courting, if not yet consummation, in Europe too. Rumours have swirled for months: the potential combinations involve the London Stock Exchange (LSE), Germany's Deutsche Börse, the pan-European Euronext and OMX, a Nordic exchange operator. Meanwhile, Australia's Macquarie Bank has been looking for a partner to join it in a possible offer for the LSE. Britain's competition authority has given the Australians until December 15th to bid or back off.



“The whole exchange space in Europe and the US is in play at the moment,” says Octavio Marenzi, chief executive of Celent, a technology research and consulting firm. That space is for the time being remarkably exciting and profitable. Volumes are booming, especially on derivatives exchanges. Profits are strong. Fox-Pitt, Kelton, an investment bank, expects that this year Deutsche Börse and the LSE will make returns on equity of more than 20%, with Euronext making a respectable 11%. Exchanges' share prices have been soaring.

Yet amid the bounty, the changes swirling around the industry are also bringing challenges. Mr Marenzi predicts that an increasingly networked world will diminish exchanges' centralising role of bringing buyers and sellers together. He thinks it could even disappear in 15 or 20 years, as more buyers and sellers trade directly on screen. Thanks to demutualisation, technological change and regulation, exchanges also face more immediate threats. Although the details vary between Europe and America, exchanges in both face strain on revenues and costs. The future may not be as lucrative as the recent past. Investors may even be sensing this. Those scorching share prices have cooled a bit in recent days.

On the revenue side, Ruben Lee, managing director of Oxford Finance Group, a consultancy, notes that many sources are already under threat. Membership fees have vanished as exchanges have gone public. Trading fees, a primary source of revenue, have fallen on a per-trade basis, although the effect of this has been offset by higher volumes. One result, says Mr Lee, is that more exchanges are subsidising transactions or are paying marketmakers to direct orders to them.

Meanwhile, in Europe there are questions about future competition in clearing and settlement, which is especially awkward for Deutsche Börse: 40% of its revenue comes from post-trade services. The European Commission has made noises about new regulation in this area.

Also in question are revenues from publishing prices and quotes. In Europe, views differ on how great the effect will be of a big, looming regulation, the Markets in Financial Instruments Directive (MiFID), which demands more transparency and competition in pre- and post-trade data.

Shareholder pressure is pushing exchanges to look for new sources of revenue, in new asset classes or in foreign markets

Some—notably technology companies selling software—foresee an explosion of market-data services that will take the exchanges' business. Mr Marenzi believes the LSE, which is active in this area, could suffer more than others. The LSE, which charges up to £2.75 ($4.75) per trade for its post-trade information, admits that margins are likely to be cut when MiFID kicks in in 2007, but says it is well placed to increase its market share. Mr Lee notes that few alternative systems have displaced primary exchanges in the past as providers of price and quote data.

More broadly, big exchanges say that MiFID ought to bring them more business, through the extension of “single passport” rules that will allow more investment firms to operate on a pan-European basis. The LSE and Deutsche Börse say that they do not expect to have to change their methods much to comply with the directive. Its effects could be more troublesome farther south, because France, Spain and Italy now have rules that drive all trades through exchanges. The directive in essence says that this should cease.

The price of progress

While revenues are under threat, technology costs have soared. The rise of electronic trading has entailed costly investments. That said, some exchanges, such as Euronext and OMX, have sold technology and software to others, which provides offsetting revenues.

Technology has in turn spawned internalisation of trades by big investment banks off-exchange, alternative trading systems and automated block trading. The last—the lumping together of lots of small trades—has put pressure on fees by cutting the marginal cost of a trade, in effect to zero. Liquidnet, a fast-growing firm that anonymously joins buyers and sellers to negotiate trades without intermediaries, says that its average order size for large-cap stocks in the third quarter was 62,000 shares. With so many alternatives, the NYSE has seen its share of the trading in its own listed stocks fall below 75%, the lowest level in 29 years.

Fears about regulation extend beyond the Europeans and MiFID. In America, regulators are also forcing the more old-fashioned stock exchanges to modernise or die. Earlier this year the Securities and Exchange Commission approved a regulation known as Reg NMS, which emphasises the need for markets to be speedy. Some think it helps explain the NYSE's eagerness to merge with an electronic exchange. Whether the American Stock Exchange's plans for a part-open-outcry, part-electronic model will satisfy the rule remains to be seen. Reg NMS does not cover commodity exchanges, which allows the member-owned, floor-trading New York Mercantile Exchange to sustain its old ways—although competition from the all-electronic IntercontinentalExchange could also force it to change.

Meanwhile, the managers of public exchanges have outspoken shareholders to put up with. Activists have already driven out Werner Seifert, chief executive of Deutsche Börse, for being too keen to buy the LSE. Euronext's Jean-François Théodore has also faced demands that he explore other options, including a tie-up with Deutsche Börse, before making a formal offer for the London exchange. Shareholder pressure is pushing exchanges to look for new sources of revenue, in new asset classes or in foreign markets. So far, the first has been easier than the second.

With shareholders so jumpy and exchanges in need of profits, users naturally have wondered how they stand to gain from all the upheaval. In Europe, particularly, many have complained about exchange fees. Sensing the mood, Macquarie Bank has reportedly asked to meet investment banks as it ponders a bid for the LSE. In America, big investment banks recently took big stakes in the Philadelphia Stock Exchange, and are investing in a new, all-electronic Boston exchange in the hope of countering the NYSE's power. Neither is much of a threat—at least not yet.

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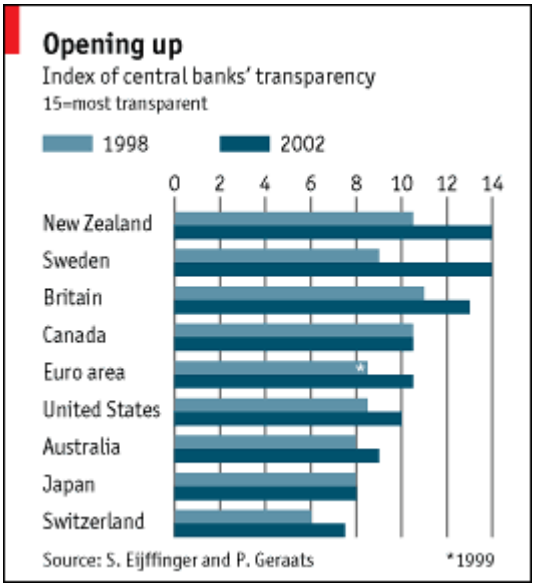
Economist.com FINANCE & ECONOMICS

Central banks' transparency

The end of surprises

Dec 1st 2005
From The Economist print edition

It is becoming easier to understand the workings of central banks



NO ONE should have been surprised when, on December 1st, the European Central Bank (ECB) raised euro-area interest rates by a quarter of a percentage point, to 2.25%. The rate increase may be controversial, but it was scarcely unexpected: Jean-Claude Trichet, the ECB's president, had dropped the heaviest of hints far in advance.

In fact, central banks everywhere are becoming easier to read: look at the long, predictable series of rate rises by America's Federal Reserve. It wasn't always so. In pre-euro days, Germany's Bundesbank almost enjoyed taking markets by surprise. And it was only in 1994 that the Fed started saying publicly whether it had changed rates at all. Until then, it was up to the markets to work out what, if anything, had happened.

Now most central banks swear by “transparency”. This covers more than just preparing the ground for interest-rate moves; everything from setting out policy objectives to publishing economic models and forecasts also falls under the term.

However, some are more transparent than others; and different banks are open in different ways. The ECB, for example, does not publish minutes of its rate-setting meetings; the Fed and the Bank of England do. And whereas the British and the euro-zoners have inflation targets, the Fed so far does not.

In a new study*, Sylvester Eijffinger, of Tilburg University, and Petra Geraats, of the University of Cambridge, present an index of the transparency of nine central banks—the eight that matter most in foreign-exchange markets, plus New Zealand's, the pioneer of central-bank clarity. Banks can score up to 15 points, three for each of five types of openness: political (eg, whether a central bank has a formal target and whether it is independent); economic (its data, models and forecasts); procedural (strategy and the publication of minutes); policy (how decisions are explained, and whether future changes are indicated); and operational (how clearly banks explain missed targets, and how well they explain economic surprises).

The central banks of New Zealand and Sweden top the table in 2002, with 14 points, followed by the Bank of England, with the ECB and the Fed in the middle of the pack (see chart). Almost all central banks became more open after 1998. Sweden's Riksbank saw the biggest change, adopting an explicit indication of where policy might head next and an annual review of inflation (which it targets) over the past three years. Even ten or 15 years ago, few banks would have scored double figures.

Since 2002, central banks have become more transparent still. The Fed, for instance, has been publishing minutes of its meetings more speedily since the start of this year. Mr Eijffinger says that he expects the trend to continue. Ben Bernanke, the Fed's chairman-designate, favours an explicit inflation target. Mr Eijffinger also believes (and hopes) that the ECB will start publishing minutes, something that it has so far resisted.

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* “How Transparent Are Central Banks?”. Forthcoming in the *European Journal of Political Economy*.

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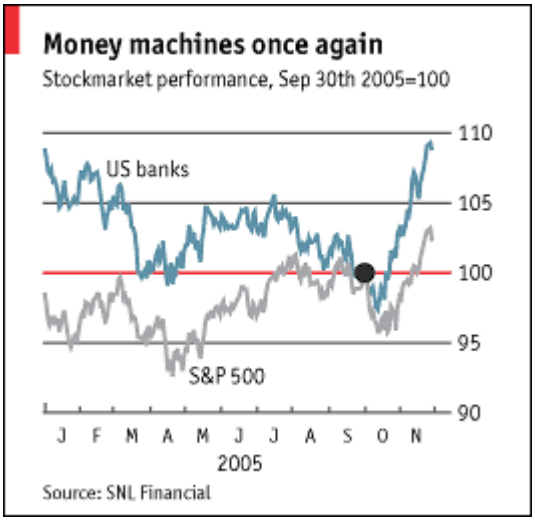
Economist.com FINANCE & ECONOMICS

American banks

Bouncing back

Dec 1st 2005 | NEW YORK
From The Economist print edition

The shares of American banks have shrugged off their recent torpor



EVERY business worries about increasing costs and deteriorating assets. In banking, that means rising interest rates and weakening loan quality and, beyond that, signs of sickness in the economy as a whole. In January the share prices of America's banks began to slide because of a combination of worries, even though the banks' operating performances continued unabated. Over the past month or so, however, prices have come bouncing back.

At the start of the year, the Federal Reserve was already tightening interest rates; the departure of Alan Greenspan from the Fed chairmanship was on the horizon; and energy prices were rising. Plenty of bad news followed, such as the travails of General Motors and the ravages of Hurricane Katrina, as well as good news that could be interpreted as bad, such as low unemployment, which can help push wages up. Banks therefore faced the prospect of greater loan losses, lower demand for credit and a higher cost of funds. Mergers in the industry slowed to $7 billion in the first quarter, against $82 billion in the same period of 2004, according to Eric Reinford of SNL Financial, a Virginia research firm. Few wanted to pay for a business that seemed to be going nowhere.

There are still reasons to worry: a slowdown in the housing market, which has long buoyed the economy and the banks, looks overdue. Nevertheless, since mid-October, the start of the third-quarter earnings season, sentiment has changed. Overall, profits are up by 20-25%, says SNL. A share-price index it compiles, covering 470 listed banks, has risen by 12% in just over a month, against 7% for the market overall.

The banks are benefiting from rising demand for commercial and industrial loans and from the lowest loan-loss rates on record. Energy prices have been easing lately and with them concerns about inflation, even though in the third quarter the economy grew at its fastest since the first quarter of last year. Expectations about where the fed funds rate might stop have faded from 6% earlier in the year to maybe 4.5%, just half a percentage point above the current level. The coming change at the top of the Fed has caused no tremors so far.

Rumours are once again rife about potential mergers, particularly among large banks (but not the largest few). These include AmSouth, Fifth Third, PNC, National City, Mellon, SunTrust, and anything with a teller window in Puerto Rico.

Perhaps the most intriguing sign of optimism is the eagerness with which bank bosses seem to be buying their own companies' shares. According to Thomson Financial, a research firm, for four

weeks running more than half of the largest insider transactions have been by finance company executives, the longest stretch of this sort all year. This, Thomson observes, has frequently been followed by good news from the financial industry within six to nine months. The managers, like the market, seem to expect just that.

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The City of London and terrorism

Testing time

Dec 1st 2005
From The Economist print edition

London's financial heartland under virtual stress

JUST after lunchtime on November 28th, all hell broke loose. NewsOne TV reported that terrorist bombs had struck the City of London and Canary Wharf, two miles to the east, in a clear attempt to disrupt a great financial centre.

This was make-believe, of course. But it was nevertheless a serious attempt, arranged by the Financial Services Authority, the Bank of England and the Treasury, to test their own reflexes and those of more than 1,000 people at 80 London institutions. The police, emergency services and London Underground played too, to add credibility with responses honed by the real bombs of July 7th.

The largely desktop exercise saw dozens of virtual casualties. Transport ground to a halt; vital staff went missing; banks were evacuated and back-up sites buzzed. Each team had only its own sketchy information. Minute by minute, broadcasts and websites delivered fresh twists and horrors, including more terrorist threats, while actors playing journalists demanded answers. By hook or by crook the financial system survived, although real-time payments were delayed for a while. Of help was a secure internet chatroom where institutions swapped information.

This was more sophisticated than a similar exercise a year ago. It took a team of 15 experts from KPMG, a consulting firm, five months to devise, with the added spice of pre-recorded newsfeeds and the fictitious NewsOne, more financial complexity, greater uncertainty, and the participation of American regulators by telephone (other foreign regulators were observers). Now comes a six-month post mortem—because no one had a complete view of the crisis as it was happening—before a full report is published.

British regulators are the first to have run such an exercise. KPMG is talking to American and other authorities about similar events on their territory. It has taken time to convince financial regulators that such simulations are useful. Now they have twice tested operational risks to the financial system. But they are still coy about testing the system's resistance to a credit crisis, such as the collapse of a big bank. That should be next on the list.

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Economist.com FINANCE & ECONOMICS

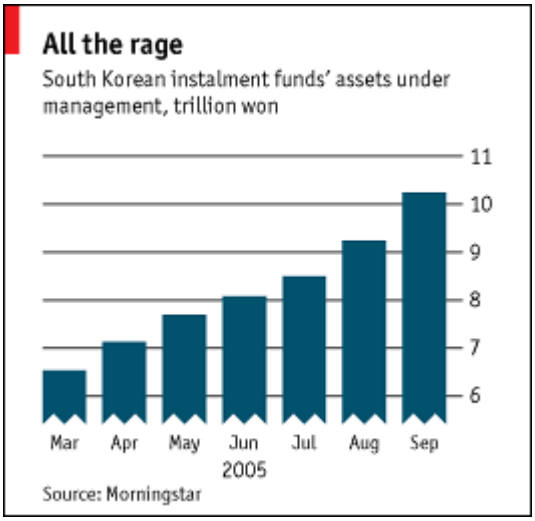
South Korean mutual funds

Mania by instalments

Dec 1st 2005
From The Economist print edition

Investors in mutual funds are driving a stockmarket boom

EVERY other day for the past fortnight, South Korea's stockmarket has hit record highs, outpacing other Asian markets by a distance. It has risen by 45% so far this year in dollar terms, compared with 11% for Morgan Stanley Capital International's Asian (ex-Japan) index.



The bull run has had as much to do with South Koreans' thirst for mutual funds, and with fund managers' and bankers' eagerness to sell them, as with financial fundamentals. Around 4m South Koreans have been captivated by products called instalment funds, a class of investment that grew by 56%, to 10 trillion won ($10 billion), between March and September. Each month the average investor puts in 200,000-300,000 won, most of which is funnelled into local shares. The average account is worth less than 2.5m won.

Mutual funds are not new to South Korea, but sales exploded in 2003, when fund managers, aided by pushy bank tellers, started to market their products hard. They have successfully planted the idea that investing in dribs and drabs is a sure way to minimise capital loss. Kookmin Bank, the country's biggest, recorded net sales of 2.4 trillion won between March and September, almost a quarter of the total. Chohung Bank, which sold a net 934 billion won, was the second-biggest seller.

Some analysts, such as Christopher Wood of CLSA, an investment bank, believe recent growth in the South Korean economy cannot justify all this. South Korea, he thinks, has developed a culture of share ownership that could drive fund inflows to mania proportions. That foreigners were net sellers of local shares in the first ten months of 2005, leaving domestic investors as the chief buyers, lends support to the argument.

Others ascribe the enthusiasm for instalment funds to aggressive sales tactics rather than a new national interest in the stockmarket. “This trend is driven by distributors because they can demand high fees,” says Kenneth Cho, of Morningstar, a research firm. Distributors reap a commission of 1.4-1.7% a year for each sale; total fees can exceed 2.5%. American investors, by comparison, pay on average 1.41% to invest in a domestic share fund. Of this, sales commission accounts for 0.41 percentage points, says Morningstar.

The question is whether the boom will continue, or fizzle, as did South Korea's credit-card craze at the start of the decade. Penalties for quitting funds within three years—managers keep 30% of the previous three months' gains—are likely to keep investors steady in the short term. Punitive property taxes designed to deflate a housing bubble could also push money towards shares. And

most analysts still think South Korean shares are cheap.

However, investors would find it hard to keep faith if the market took a tumble. “If there was ever market panic, there could be a massive unwinding of positions. But we are hoping that the instalment payments will encourage a ‘buy on dip’ mentality,” says James Cameron, of Atlantis Investment Management. So far, there's no sign of a dip to test the theory.

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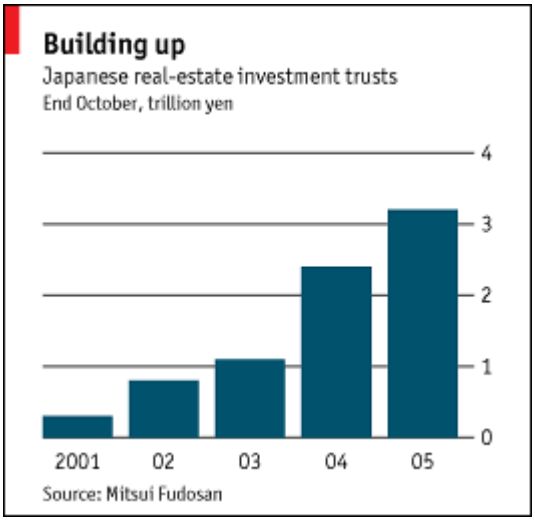
Economist.com FINANCE & ECONOMICS

Japan's property market

Re-bubble

Dec 1st 2005 | TOKYO
From The Economist print edition

Specialist funds have raised property prices, but the market is still fragile



RECENTLY, 18 Japanese hotels have had to close, at least for a while, because of the risk that they will fall down. Several blocks of flats are also under scrutiny, and their residents may have to move out. An architect faked earthquake-resistance data and surveyors supposed to appraise the buildings' construction did not notice.

The scandal is especially distressing to those living in or owning these buildings. But it has also sent a shiver through Japan's property market, and may hurt its fast-growing real-estate investment trusts (REITs). The gap between rental yields, around 3-5%, and long-term government-bond yields, around 1.5%, have made property attractive in certain areas, mainly big cities. REITs and private-equity funds specialising in property pool investors' cash to buy portfolios of buildings. They have also been investing borrowed money, on offer ultra-cheaply from Japan's banks, to add extra zip. Some have been promising investors as much as 20%.

These funds have pushed up the prices of property in some places. Numbers are sketchy, because most funds reveal little, but Mitsui Fudosan, Japan's biggest property developer, puts the total size of REITs and private-equity property funds at ¥10 trillion ($87 billion), or 10-14% of Japan's investment-grade property market. Akiyoshi Inoue, president of Sanyu System Appraisal, a firm of surveyors, calls this a “re-bubble”, reminiscent of the overheating of the 1980s. Collapse, and great distress for Japan's economy and its banks, ensued.

Rising property prices, although only in some areas, have led optimists to believe that a 15-year property slump is coming to an end. Not so, says Mr Inoue, who expects the “re-bubble” to burst in roughly a year's time. Competition is intensifying as firms build new properties to lure tenants. Commercial rents in central Tokyo, according to data from Mitsui Fudosan, fell by about one-quarter between 2000 and last year. Toshihiko Okino, of UBS in Tokyo, adds that while REITs tend to be long-term investors, private funds, which have three-quarters of the market, usually intend to sell in six months to three years—hardly a solid base for prices.

REITs with high-quality portfolios can console themselves that they are less susceptible to falling rents. They also tend to be less geared than those further down the market: loans comprise about 60% of their finance, against 90% at the weaker funds with less attractive properties.

This in turn poses a question of Japan's banks, especially small ones. Most of their loans to the funds have no collateral except property, so lenders cannot call on related companies to step in should borrowers get into trouble. Smaller banks have also been putting money into REITs as

equity investors, doubling their risk.

How big a worry is this? Nothing on the scale of the 1980s, to be sure, but it is troubling all the same that no one really knows. Even the banks' regulator admits it has no idea how much most banks have lent to property funds. Despite being badly bitten once, the banks are still not shy.

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Economist.com FINANCE & ECONOMICS

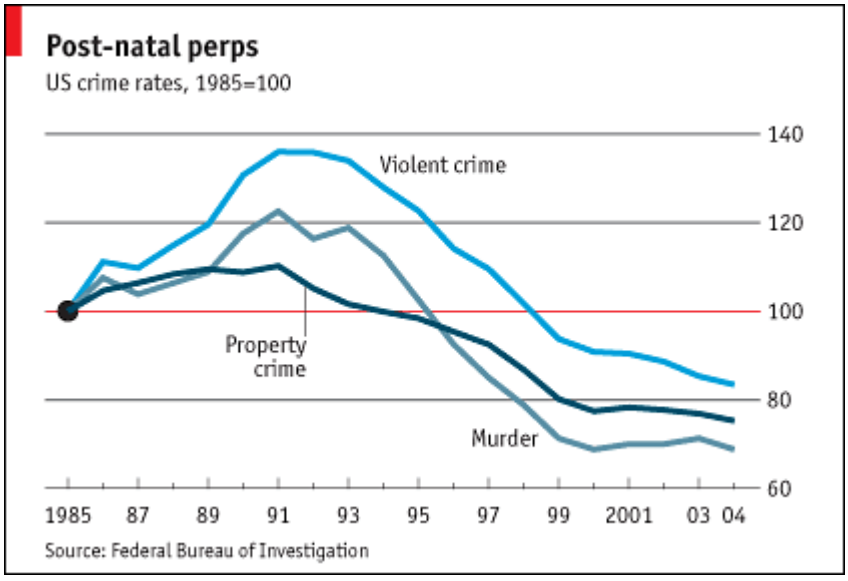
Economics focus

Oops-onomics

Dec 1st 2005
From The Economist print edition

Did Steven Levitt, author of "Freakonomics", get his most notorious paper wrong?

ABORTION cuts crime. That claim—first demonstrated by John Donohue, of Yale Law School, and Steven Levitt, of the University of Chicago, in an academic article in 2001*—is the kind of provocative and surprising conclusion that has made Mr Levitt's book, "Freakonomics", such a runaway success this year. Unwanted children, the story goes, are more likely to become criminals in later life. Abortion, legalised throughout the United States by the Supreme Court's *Roe v Wade* ruling in 1973, prevents unwanted pregnancies from becoming unwanted children. Higher abortion rates from the 1970s onwards thus help to explain why crime rates fell in America about two decades later.



That's the theory. But a paper published last week† by Christopher Foote and Christopher Goetz, two economists at the Federal Reserve Bank of Boston, finds an embarrassing hole in the evidence. Messrs Donohue and Levitt subjected the data to a battery of tests, some suggestive, others more systematic, in an effort to prove the links in the chain. The challenge is to distinguish the role of abortion from other potential influences on crime, many of which cannot be observed directly. Some of these rival factors vary year by year; others state by state. Messrs Foote and Goetz concentrate their fire on those that do both. They offer the crack epidemic, which rose and receded at different times in different places, as an example.

Messrs Donohue and Levitt claim to control for such effects in the final test of their paper. That exercise is meant to facilitate comparisons such as: did arrests of 20-year-olds in New York in 1992 diverge from those of 18-year olds in the same state and year? This automatically takes

account of anything going on in the Empire state that year (such as a crack epidemic) that would have affected 18-year-olds and 20-year-olds alike. The principal difference between the two age groups is that one was born after the Supreme Court legalised abortion and the other before.

It was a good test to attempt. But Messrs Foote and Goetz have inspected the authors' computer code and found the controls missing. In other words, Messrs Donohue and Levitt did not run the test they thought they had—an “inadvertent but serious computer programming error”, according to Messrs Foote and Goetz

Fixing that error reduces the effect of abortion on arrests by about half, using the original data, and two-thirds using updated numbers. But there is more. In their flawed test, Messrs Donohue and Levitt seek to explain arrest totals (eg, the 465 Alabamans of 18 years of age arrested for violent crime in 1989), not arrest rates per head (ie, 6.6 arrests per 100,000). This is unsatisfactory, because a smaller cohort will obviously commit fewer crimes in total. Messrs Foote and Goetz, by contrast, look at arrest rates, using passable population estimates based on data from the Census Bureau, and discover that the impact of abortion on arrest rates disappears entirely. “I am simply not convinced that there is a link between abortion and crime,” Mr Foote says.

Messrs Donohue and Levitt did not run the test they thought they had

It may be asking too much of the numbers to convince everybody. “The debate over abortion and crime will not be resolved within the parameters of our paper,” says Mr Donohue. He thinks the arrest figures are “muddy” and the state population data “sloppy”. Combining the two generates so much noise, it is hard for the statistical tests to hear anything. Ted Joyce, a professor at Baruch College (part of the City University of New York), who has had his own methodological disagreements with Messrs Donohue and Levitt, also thinks the debate is stretching the data too far. He points out that if you add controls for 50 states and 12 years—as Messrs Foote and Goetz do, and as Messrs Donohue and Levitt meant to do—you are, in effect, holding another 600 things constant. This robs the data of most of their variety, and of much of their ability to explain anything.

To say, as Mr Levitt does in “Freakonomics”, that “abortion was one of the greatest crime-lowering factors in American history” may be a bit strong. But the underlying thesis, however unpalatable to some, is not likely to be dispelled by a stroke of Mr Foote's computer key. Mr Levitt says his case is based on a “collage of evidence”, of which the flawed test is one small piece. He is, in particular, sceptical that crack undermines his thesis: it varied more by age group than by state, he says, hitting 17-year-olds in all states harder than 25-year-olds in any state. He is instead trying to improve his measures of abortion, to take account of the fact that people born under one state's abortion regime might later move elsewhere to commit their crimes.

For those interested in the consequences of abortion, rather than the causes of American crime *per se*, the dispute might next move to Romania. In 1966 Nicolae Ceausescu, the country's dictator, banned abortion. A kind of *Roe v Wade* in reverse, this decision had a much bigger effect on childbearing in Romania, where women had relied heavily on termination as a form of family planning. The birth rate rose from 1.9 to 3.7 children per woman in the space of a year. A forthcoming study by Cristian Pop-Eleches, of Columbia University in New York, explores how these extra 1.8 children fared in later life. Mr Pop-Eleches offers “some suggestive evidence” that children of a given background born after the ban may have grown up to commit more crimes than those born just before—although again this may have as much to do with the changing times in which they lived.

Of course, lots of people have always thought Mr Levitt was in the wrong. Even if abortion cuts crime, it is still immoral, they fulminate. But this is largely beside the point: Mr Levitt's research does not take a position on abortion's social virtues, but aims merely to uncover its societal

effects. Besides, for someone of Mr Levitt's iconoclasm and ingenuity, technical ineptitude is a much graver charge than moral turpitude. To be politically incorrect is one thing; to be simply incorrect quite another.

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* "The Impact of Legalised Abortion on Crime". *Quarterly Journal of Economics*, May 2001.

† "Testing Economic Hypotheses with State-Level Data: A comment on Donohue and Levitt (2001)". Federal Reserve Bank of Boston working paper. November 2005. Available at www.bos.frb.org/economic/wp/wp2005/wp0515.pdf

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Correction: Jacques Aigrain

Dec 1st 2005
From The Economist print edition

In last week's issue ("Top of the pile") we said that Jacques Aigrain, chief executive-designate of Swiss Re, was chief financial officer. He is in fact deputy chief executive. Our apologies.

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Economist.com SCIENCE & TECHNOLOGY

Climate change

Restricted circulation

Dec 1st 2005
From The Economist print edition

Getty Images

An ocean current in the North Atlantic is getting weaker. That may be bad news for north-west Europe

Get article background

THOSE who worry about climate change worry about many things: rising temperatures, rising sea levels, changes in rainfall and stronger storms, for example. One of the things they worry about most, though, is changes in the circulation of the ocean's currents. That is because these currents are the main way that heat is redistributed from the tropics, where there is a lot of it, to the polar regions, where there is not. If the currents shifted, it would mean that temperatures in some parts of the world changed much more than they would merely as a result of the local atmosphere warming up as heat-trapping greenhouse gases accumulate. Indeed, it could mean that in some places temperatures fell, rather than rising.

One of the places that both history, in the form of sediment records and ice cores, and computer models suggest is vulnerable to such a fall is north-west Europe. And a paper in this week's *Nature*, by Harry Bryden and his colleagues at the National Oceanography Centre in Southampton, Britain, suggests that history may be about to repeat itself. That is because Dr Bryden and his team have found evidence that the North Atlantic currents which keep the region warmer than its latitude suggests it deserves have weakened significantly over the past decade.

Most readers of this newspaper will be familiar with the Gulf Stream, which carries warm water from the Gulf of Mexico to the edge of the Arctic Ocean. They may be less familiar with the Deep Southerly Return Flow (DSRF), an ocean-bottom current that returns part of this water back to warmer climes. As the map shows, the Gulf Stream splits in two. Part of its water returns past the

coast of Africa in a loop known as the subtropical recirculation. The rest takes the DSRF route. The northern arm of the Gulf Stream and the DSRF together constitute what is known as the Atlantic Conveyor Belt.

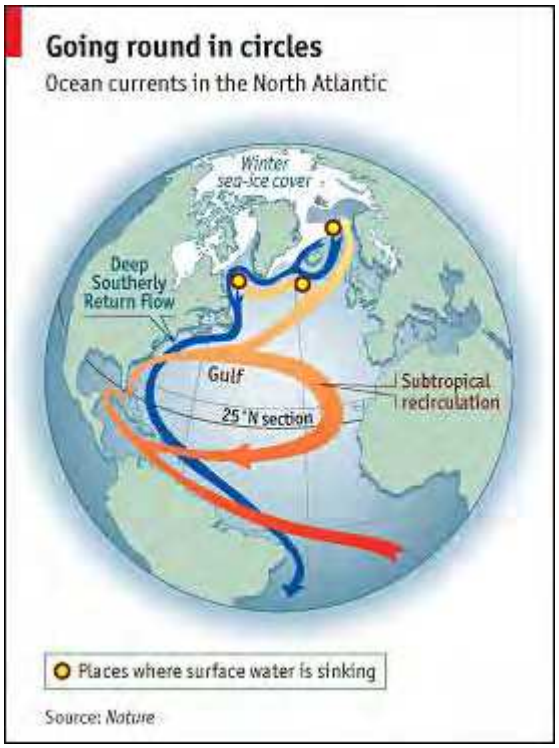
Since 1957, the International Geophysical Year, the south part of the North Atlantic has been studied from time to time by taking measurements along latitude 25°N from the Canary Islands to Florida. This line marks the point where the maximum amount of heat is being shifted around, and is also a place where the separation of the individual currents is easy to follow (seabed features further north tend to break the currents into separate streams).

Five such transects have been taken, the three most recent being in 1992, 1998 and the one Dr Bryden is reporting, which was done in 2004. Within the usual margins of error, the results in 1992 were the same as those of the earlier two. In 1998, though, the DSRF showed an appreciable drop in flow. And in 2004 it had dropped further. The surface flow of the Gulf Stream past Florida, though, was unchanged. And, to complete the equation, the volume carried by the subtropical recirculation had increased to compensate for the drop in the DSRF. The result, when the numbers were crunched, suggests that the volume of water being carried by the Atlantic Conveyor Belt has dropped by 30%.

If that is correct, and more importantly, if it were sustained, the result for places such as Britain would be a 1°C drop in average temperature—enough to be noticeable. If it were not merely sustained, but got bigger (and the 2004 figure was larger than that for 1998), the temperature drop would be greater. And if the conveyor belt stops altogether, as it has in the past on more than one occasion, Britain's climate would come to resemble that of Newfoundland. The questions, of course, are why is this happening, and can anything be done?

The big chill?

The reason to believe global warming is the cause is that the computer models suggest it. The conveyor belt is powered by the pull of water sinking from the surface to the seabed in three places. It sinks because it is salty and, by the time it has reached northern latitudes, cold. It is therefore dense. But a warming climate will, the models agree, put more fresh water into the sea around these so-called sinking regions. This water will come from increased rainfall feeding rivers that flow into the areas, and also from the melting of the Greenland ice cap. Fresh water is less dense than brine, and the result is a mixture that will remain on the surface and therefore slow the conveyor down.



Dr Bryden's observations do not extend that far north, so whether this is actually the cause he cannot say. But measurements at one of the sinking regions, which were published four years ago, suggest the turnover rate has dropped significantly since 1957, and a three-year-old paper suggests that the surface waters of the North Atlantic are, indeed, getting fresher.

Everything, therefore, points to global warming being the culprit. It is probably no coincidence that the editors of *Nature*, who are no slouches when it comes to publicity, have published Dr Bryden's paper in the week that a meeting in Montreal is reviewing the implementation of the Kyoto protocol on climate change. But even if Kyoto were implemented in full, it would not save the conveyor belt if it really is slowing down.

The one positive thing about Dr Bryden's study is that it is the first of what should become a series of annual reports on the state of the North Atlantic. It should thus become clear soon whether this result is just a blip, and reasonably soon whether it is a shift that has run its course, or is part of a downward trend. If it is part of a trend, and you live in north-west Europe, it may soon be time to wrap up warm.

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Economist.com SCIENCE & TECHNOLOGY

Obesity

Bouncing back

Dec 1st 2005
From The Economist print edition

A hormone called leptin will not make you slim, but it may help you stay slim if you have got there by your own efforts

WILD animals are never fat, and that is as true of humans as of other species. So hundreds of millions of years of natural selection have happened in circumstances when a sudden drop in body weight was almost certainly a very bad thing. It would mean, at best, going from sleek to slim. At worst, it would mean going from slim to starving. So it is not surprising that evolution resists such a trend with all its might.

That, though, is unfortunate for those evolutionary oddities whose lives permit them to consume as much as they want—in other words, people in rich societies. Not only do their appetites tend to fill their stomachs with as much as will fit (on the savannah, you don't know when the next meal will arrive) and with as much fatty food as possible (as wild animals are never overweight, fat is a luxury item), but if they do make the decision to lose weight by conscious effort and succeed in doing so, they more often than not put it all back on again quite rapidly. That, too, is an evolutionary response, and a paper just published in the *Journal of Clinical Investigation* by a team from Columbia University, in New York, has helped to explain how it happens. From the slimmer's point of view, though, this paper has an important conclusion, for it hints at how, once the weight is off, it can be made to stay off.

Slim hopes

Over the years, Michael Rosenbaum, Rudolph Leibel and their colleagues have pieced together the story of why slimming is easier than staying slim, and the bottom line is that when you lose weight, whether or not you were obese at the beginning, your muscles stop using so much energy.

Surprisingly, this is true whether you exercise or not. Nor is it a question of a lighter body needing less effort to move around. The researchers have looked at the problem from many angles. They have had people keep logs of their activity. They have had them ride stationary bicycles inside calorimeters which measure their energy output. They have even used magnetic-resonance spectroscopy, a cousin of a popular form of body scanning, to examine the activity in their muscles of a molecule called adenosine triphosphate, which is the currency in which energy is stored for use in cells. All the results agree: lose 10% of your body weight and your muscles use 20-30% less energy.

The immediate reason seems to be changes in the autonomic nervous system's activity, combined with changes in the levels of two thyroid hormones and a weight-regulating hormone called leptin. It is the role of leptin that Dr Rosenbaum and Dr Leibel have been investigating.

Their latest experiment took a small group of people of both sexes, some of whom were obese,

and some of whom were of normal weight and had never suffered from obesity. They were all forbidden to eat normal food, and instead were fed with a special liquid formula whose composition is known precisely. Once their stable weights, and bodily indicators such as autonomic nervous function and hormone levels, were established, their “diets” were cut to 800 calories a day until they had lost 10% of their body weight. That took eight weeks on average. Their calorific intake was then adjusted until this 10% weight loss was stable—and then the relevant indicators were measured again.

Once this had happened, the experiment began. Each subject was given regular injections of leptin designed to return the level of the hormone to what it had been at the beginning of the study. The indicators were then measured a third time.

The first notable feature was that the subjects' weights now fell further. The second was that almost all of their bodily indicators returned to their pre-weight loss levels. Energy expenditure, muscle efficiency and thyroid-hormone levels all normalised. So did the activity of the half of the autonomic nervous system known as the sympathetic system. Only the other half, the parasympathetic system, remained unaffected.

This suggests that previous attempts to use leptin as a weight-loss agent have been misconceived. The hope was that it might form the basis of a drug that fat people could take to make themselves slim without effort, which sounded like a gold mine to a number of drug companies.

That did not work, though, and the drug companies started to drift away from the idea. So the hearts of a few unkind puritans, who felt that people should have to put some effort into getting and staying slim, were warmed. But perhaps the puritans were only half right. If you can be bothered to put in the effort to get slim in the first place, chemistry may yet be able to help you stay that way.

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Economist.com SCIENCE & TECHNOLOGY

Stem cell research

Clash of faiths

Dec 1st 2005 | SEOUL
From The Economist print edition

A South Korean stem-cell researcher bounces back from disgrace

MANY in the West agonise over the ethical questions raised by research on stem cells taken from human embryos. In South Korea, by contrast, the prevailing attitude has been “just get on with it”. Most South Koreans have reconciled themselves to the dilemmas implicit in the field, and that has created one of the most relaxed public environments on Earth for research on such cells.

So, get on with it is exactly what Hwang Woo-Suk did. Dr Hwang achieved cult status in South Korea by putting the country on the world's scientific map with his pioneering research at Seoul National University. Until a few days ago, he was also head of the newly opened World Stem Cell Hub in Seoul. Papers streamed impressively from his laboratory, and many western scientists felt he had stolen a march on them. Then an investigative television programme reported that some of the eggs used to create the embryos (or, to be more accurate, the pre-embryonic blastocysts) that provided the stem cells had themselves been provided by two of his junior researchers.

Although Dr Hwang claimed not to have known at the time about the eggs' origins, western news media gleefully reported his “disgrace” and he resigned as head of the Hub on November 24th. But the contrast between this tut-tutting and the reaction in South Korea itself could not have been starker. In an outpouring of public support, hundreds of women registered to donate their eggs for future research, while other people vented their fury on the television channel that made the findings public, causing sponsors to withdraw their advertising.

The overwhelming public vote of confidence in Dr Hwang may suggest something about South Korean attitudes to the way that those in positions of power sometimes abuse their underlings. But it also shows how different attitudes to work on stem cells are in that country compared with those in, say, America. That might seem odd in a place noted for its fervent religiosity, but even South Korea's religious leaders have been muted in their opposition to the research, despite the challenges it poses to some of their beliefs.

Ova and out

Religious South Koreans are divided roughly equally between Buddhism and Christianity, with a smattering subscribing to local faiths. Christianity, though a relatively recent import, has already been moulded to prevailing social conditions and pre-existing creeds. Perhaps the most influential of these is Confucianism—not actually a religion, but rather a philosophy of life. In contrast to Christians, Confucians do not conceive of the embryo as having a separate existence, and so believe that birth is the beginning of life.

Buddhism, like most flavours of Christianity, and unlike Confucianism, does teach that individual human life begins at conception, which implies it is immoral to use embryos for this kind of research. But South Koreans have adopted a far more robust and straightforward approach to the

question than people in the West have. This is both because of the lower status accorded to embryos as a result of Confucianism, and because the desire to alleviate suffering outweighs the sanctity of embryonic life. In contrast to Christianity, Buddhism does not regard life as a “gift” from God, so does not have a particular objection to cloning. Indeed, when Dr Hwang harvested stem cells from cloned human embryos, he cited his own Buddhist faith, including a belief in reincarnation, as one motive—saying that the experiments were a kind of “recycling of life”.

The strong public support for Dr Hwang is mirrored in government policy. The administration has already cleared him of substantial wrongdoing and has promised to continue its financial support for his work. Besides playing to the gallery of public opinion, it is hoping that, in the long term, stem-cell technology could become an important engine of growth. And that sort of belief has the advantage that you can put it in the bank.

The reason for what Damien Keown, a Buddhist ethicist, describes as the “unresolved dissonance” between Buddhist teachings and practice in South Korea is thus a combination of very human social and political factors. But copious amounts of nationalism are involved, too. Nobody likes outsiders telling him what to do, and in the wake of the controversy, many South Koreans have called on the West not to impose its values on those of other cultures. Nevertheless, Dr Hwang might be well advised to treat his underlings more cautiously in future.

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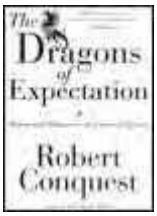
Political ideas

Bones of contention

Dec 1st 2005
From The Economist print edition

It is through their errors that we sometimes learn most from political thinkers, as is clear from two new books, one from the right and the other from the left

The Dragons of Expectation: Reality and Delusion in the Course of History
By Robert Conquest



Norton; 272 pages; $24.95
Duckworth; 256 pages; £18

Buy it at
Amazon.com
Amazon.co.uk

Spectrum: From Right to Left in the World of Ideas
By Perry Anderson

Verso; 398 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

IDEAS matter in politics; no one disputes that. Yet the plight of thinkers who produce them is seldom happy. Those who sit too far from the concerns of their time risk isolation and, in their own lives, irrelevance. If they move in too close, they trap themselves in assumptions it is their job to question. The first kind tends to develop the grievances and stylistic tics of neglected prophets. The second sort becomes hard to distinguish from weekly commentators or controversialists.

In two highly idiosyncratic books about recent political thought, Robert Conquest illustrates the former failing, Perry Anderson the latter. As both are nevertheless wide-ranging scholars, they make their mistakes in instructive ways.

Mr Conquest is a prophet who seems not to recognise that for now his side has won. An Oxford communist in his youth, Mr Conquest, at 88, is a jewel of the intellectual right. A poet and historian, he is a research fellow at the very conservative Hoover Institution in California. Last month George Bush honoured him with a Presidential Medal of Freedom.

Mr Conquest's target in “The Dragons of Expectation”, which came out in America last year and has just been published in Britain, is the left-liberal intelligentsia. Its illusions, in his view, have dominated and weakened western democracies for much of the past half century. Exhibit A, which gets most of his attention, is indulgence towards Soviet tyranny about which Mr Conquest is an expert; his 1968 study of Stalin's purges, “The Great Terror”, is a classic. About the alleged indulgence, though, he is a wholly unreliable guide. In Mr Conquest's caricature of the post-1945 West, virtually anyone with a trace of progressive idealism, be they liberal or Social Democrat, becomes a deluded crypto-Stalinist. As his case studies include C.P. Snow, Simone de Beauvoir and John Kenneth Galbraith, readers may feel that Mr Conquest is no longer reliable. Yet his wider message, he insists, is current; a tradition that fell for Soviet lies will fall for anything.

In support comes a tale of radical folly, beginning in the late 18th century, when the left followed the wrong Enlightenment, the French kind with its intoxicating visions of social transformation from above, and the right followed the sensible law-and-liberty Enlightenment of Britain and its American colonies. (Ask not about slavery or civil war.) Scroll forward two centuries. Intoxication and common sense still divide politics. The evidence? The party of delusion favours the European Union, the United Nations, international criminal justice and the Kyoto accords.

Two things stop “The Dragons of Expectation” from becoming a Fox News rant. One is its witty, teasing style (the epilogue is in verse). The other is Appendix B, in which Mr Conquest proposes, complete with draft treaty, an “Anglosphere” of English-speaking nations led by the United States and Britain. Improbable as it sounds, this is an arresting idea. Here for once he stops railing at imaginary enemies and asks us to re-think foundations. It is a pity he did not start with the

appendix and trace out what it might entail.

From Mr Anderson the notion that right-wing views are anywhere less than triumphant draws the bleakest of laughs. A polyglot historian of ideas and long-time editor of *New Left Review*, he is a hero of the intellectual left. Where he and Mr Conquest agree is in scorn for the progress-minded centre. Third ways, market socialism, humanitarian internationalism—the least crumb of comfort to mitigate conservative victory: Mr Anderson will have none of it. Uncompromising realism is his watchword, though not compromising with whom remains tantalisingly vague.

“Spectrum” comprises 15 essays or book reviews, most of them already published in the past ten years or so. Some are updated. Mr Anderson scrutinises four thinkers of the right (Friedrich Hayek, Michael Oakeshott, Carl Schmitt and Leo Strauss) and three from the centre left (Norberto Bobbio, Jürgen Habermas and John Rawls). With the exception perhaps of Rawls, his grasp of their work and context is assured. By way of judgments, he chides the first group with resistance to popular sovereignty, the second with complacency towards western injustice.

We need a survey of modern political thinkers that challenges conventional categories. Nobody could do it better than Mr Anderson. If that was his aim in “Spectrum”, unfortunately he fails. The main problem is not lingering Marxist habits of thought: a taste for all-in-one explanation, a romantic refusal to temper the desirable with the achievable, a stoical faith that the historical agent of radical change may yet appear, though none is now visible. In Mr Anderson's singular prose those habits create their own oratorical pull. No, the trouble is Mr Anderson's coyness about where he himself stands and why. Unwilling to declare his own assumptions, he is hampered in grappling with those of others. Too often he seeks to refute a thinker's arguments by disagreeing with positions they took on issues of the day, as if the one entailed the other. When that happens, what ought to have been a feast of argumentative principle becomes passing—and partisan—commentary.

The Dragons of Expectation: Reality and Delusion in the Course of History.
By Robert Conquest.
Norton; 272 pages; $24.95
Duckworth; 256 pages; £18

Spectrum: From Right to Left in the World of Ideas.
By Perry Anderson.
Verso; 398 pages; $35 and £25

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Amazon worldwide bestsellers: politics and current affairs

The big book index

Dec 1st 2005
From The Economist print edition

Ten books to tell you what's really going on

THE season's ranking of political bestsellers illuminates some of the western world's deeper fears. History's colonial overhang, the perils of globalisation, America's chronic financial incontinence, modern morality, hyper-judgmental Christians, hypocritical liberals and angry British envoys who wear red socks. Everything but the kitchen sink, really.

1. The World Is Flat: A Brief History of the Twenty-First Century.
By Thomas L. Friedman *Farrar, Straus and Giroux; 496 pages; $16. Penguin/Allen Lane; £14*

Tom Friedman, *New York Times* columnist and three-time winner of the Pulitzer prize, uses pen and peripateticism to stock up on frequent-flier points and explain how globalisation just made the world smaller. Winner of the inaugural FT Goldman Sachs business book of the year award.

Click to buy from Amazon.com and Amazon.co.uk

2. Empire of Debt: The Rise of an Epic Financial Crisis.
By Bill Bonner and Addison Wiggin. *John Wiley; 370 pages; $18.45 and £11.89*

How deficit spending, gluttonous consumption and military adventurism, they say, will bring America to its knees. By the duo who brought you Financial Reckoning Day.

Click to buy from Amazon.com and Amazon.co.uk

3. Freakonomics: A Rogue Economist Explores the Hidden Side of Everything.
By Steven D. Levitt and Stephen J. Dubner. *William Morrow; 256 pages; $14.11. Penguin/Allen Lane; £12*

A book that educates, surprises and amuses. Perfect if you want to know why *Roe v Wade* reduced crime, whether sumo wrestling is fixed and why drug dealers prefer living with their mothers.

Click to buy from Amazon.com and Amazon.co.uk

4. Team of Rivals: The Political Genius of Abraham Lincoln.
By Doris Kearns Goodwin. *Simon & Schuster; 944 pages; $22.41*

How Lincoln won over his fiercest opponents, and appointed them to the cabinet.

Click to buy from Amazon.com and Amazon.co.uk

5. Our Endangered Values: America's Moral Crisis.
By Jimmy Carter. *Simon & Schuster; 224 pages; $15*

Even the former president worries about the domination of the Christian right.

Click to buy from Amazon.com and Amazon.co.uk

6. The Woman at the Washington Zoo: Writings on Politics, Family, And Fate.
By Marjorie Williams. *PublicAffairs; 384 pages; $17.79*

Long-time *Washington Post* writer on Barbara Bush, Capitol Hill and facing death.

Click to buy from Amazon.com and Amazon.co.uk

7. DC Confidential.
By Christopher Meyer. *Weidenfeld & Nicolson; 288 pages; £12*

Former British ambassador to Washington is breathless on the Beltway. An easy read.

Click to buy from Amazon.co.uk

8. The Great War for Civilisation: The Conquest of the Middle East.
By Robert Fisk. *Knopf; 1,366 pages; $26.40.4th Estate; £15*

Skip the analysis, but read through to the end. As a reporter, Robert Fisk is peerless.

Click to buy from Amazon.com and Amazon.co.uk

9. Do As I Say (Not As I Do): Profiles in Liberal Hypocrisy.
By Peter Schweizer. *Doubleday; 272 pages; $15.61*

How left-leaning liberals, or at least 11 of them, don't practise what they preach.
Click to buy from Amazon.com and Amazon.co.uk

10. Not Quite the Diplomat: Home Truths About World Affairs.
By Chris Patten. *Penguin/Allen Lane; 304 pages; £12*

Retired British politician on the Conservative party, Europe and American neo-cons.

Click to buy from Amazon.co.uk

Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr, Amazon.jp, November 1st-27th 2005. Prices are correct as of November 29th 2005.

Economist.com BOOKS & ARTS

South Africa

Behind closed doors

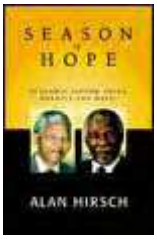
Dec 1st 2005
From The Economist print edition

Get article background

FIVE years ago, when Alan Hirsch first began approaching publishers with this manuscript, he was systematically turned down. His book, he was told, was “too optimistic”. South Africa's economy looked gloomy then. Today, with inflation under control, a stabilised currency and an economy growing at a healthy rate, the outlook is rosier.

“Season of Hope” is an account of the thinking that shaped economic policy under Presidents Nelson Mandela and Thabo Mbeki. When it came to power in 1994, the African National Congress (ANC) faced the dual challenge of a stagnating economy and one of the most unequal societies in the world. “The task of the new government”, Mr Hirsch explains, “was to bring the golden goose to health, and simultaneously to meet the legitimate expectations of the newly enfranchised majority.” How the ANC sought to square this circle is the core of this book.

Season of Hope: Economic Reform Under Mandela and Mbeki
By Alan Hirsch



University of KwaZulu-Natal Press; 203 pages; $34.95 and 170 rand

Buy it at Amazon.co.uk

The author also tries to dispel myths. Mr Hirsch, who previously worked for the Department of Trade and Industry and is now chief director of the economic policy unit at the presidency, argues that the evolution of the ANC's economic thinking is not, as is often thought, the story of an overnight switch, under foreign pressure, from socialist ideology to a more market-friendly approach. How the ANC created its economic manifesto for the 1994 election is covered in great detail, as are the events that contributed to the adoption of a strict fiscal policy: the appointment of Trevor Manuel as the first non-white, finance minister, the growing pressures from both trade unions and business circles, the currency crisis of 1996 and the subsequent high interest rates. Although much is said about macroeconomic choices, Mr Hirsch also sheds some light on the policies and controversies around trade reform, the labour market and the attempt—known as black economic empowerment—to redress apartheid's uneven distribution of wealth.

Yet “Season of Hope” is no propaganda piece. In addition to the successes, Mr Hirsch also highlights disappointments, and the work still to be done. Education remains a severe problem. Public and private investment is disappointing. Policies to encourage small and medium-sized companies have not been very successful, and unemployment remains stubbornly high.

Mr Hirsch treads carefully when it comes to individuals. A few of the people who have been instrumental in shaping economic policy—Mr Manuel, Tito Mboweni, governor of the central bank, and Alec Erwin, who is in charge of public enterprises—make an appearance. But the measured and self-effacing author is nowhere to be found. Interesting anecdotes, such as how, in 1991, Mr Mboweni, then a young ANC economist, came to rewrite the economic section of Mr Mandela's speech at the World Economic Forum in Davos, are rare. Readers seeking colourful stories or a personal account of life in government will be disappointed. But “Season of Hope” is an insightful,

enlightening and solid economic history of South Africa's first decade of democracy.

Season of Hope: Economic Reform Under Mandela and Mbeki
By Alan Hirsch
University of KwaZulu-Natal Press; 203 pages; $34.95 and 170 rand

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Economist.com BOOKS & ARTS

Photography

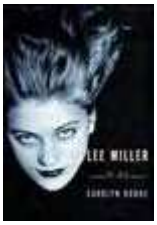
Troubled witness

Dec 1st 2005
From The Economist print edition

LEE MILLER was a bold, 22-year-old beauty from Poughkeepsie, New York, when she tracked down Man Ray in 1920s Paris and told him she was his new student. The American-born surrealist painter and photographer replied that he did not take pupils. But, as Miller explained decades later, “I guess he fell for me. We lived together for three years and I learned a lot about photography.”

Miller became a master of the surrealist image who then came into her own as a photojournalist during the second world war. Her photographs—of the liberation of Paris, of bombed-out Aachen and Cologne, the suicide of a prominent Leipzig family in 1945 or a Dachau prison guard floating dead in a canal—are hard to forget.

Lee Miller: A Life
By Carolyn Burke



Knopf; 426 pages; $35.
Bloomsbury; £20

Buy it at
Amazon.com
Amazon.co.uk

Until relatively recently, however, Miller's fame, as a flawless beauty, photographic collaborator and model, over-shadowed her artistic legacy. This first full-length biography, by Carolyn Burke, an Australian-born art critic, shows how Miller's complex nature contributed to this neglect. Her photographic career was sporadic, with spells of intense activity alternating with bouts of lassitude. Also, unlike many artists, she rarely promoted or even showed her photographic work to those who might help her.

Miller was born in 1907, the only daughter of an engineer, inventor and keen photographer from whom she inherited a fascination with the technical intricacies of image-making. Ms Burke shows how their exceptionally close relationship is there to see in the nude photo sessions of Miller as a child and as a young woman, as well as in Man Ray's photographs of her sitting in her father's lap. She was also raped at the age of seven—an event which left the child with lingering gonorrhoea and chronic psychological difficulties, which were particularly visible in her relationships with men.

Miller's steadiest commitment was with photography. An art student and cover model for American *Vogue*, Miller moved to Paris in 1929, where she started her own studio, photographing still lives and portraits. Ms Burke describes Miller's affair with Ray, and her friendships with Pablo Picasso, Jean Cocteau, Max Ernst and Paul Eluard, all in careful detail. But the biography truly comes to life when, basing herself in a room overflowing with guns, camera equipment and crates of cognac at the Hotel Scribe in Paris, Miller became a war correspondent. This was an exhausting period that culminated in a famous image of her posing in Hitler's bath after weeks on the road with the troops.

Miller cuts a lonely figure in later life. An adventurer at heart, she was not suited to marriage, motherhood and English country life with her second husband, Roland Penrose, a connoisseur and art collector. Gourmet cooking, fashion assignments for *Vogue* or taking photographs for Penrose's books on Picasso and Antoni Tapies left her unfulfilled. Her delicate features marred by drink and depression, Miller was often “out of sorts”, alienating her closest friends as well as her son Antony. Penrose meanwhile enjoyed a string of open love affairs with other women. “We cannot keep the

world permanently at war just to provide you with entertainment," Miller's doctor argued. Lack of adrenalin was only part of the problem. Miller was also haunted by flights of wartime memories: "I got in over my head," she explained to Ms Burke when they met briefly in 1977, adding that she could never get the stench of Dachau out of her nostrils.

Miller died of cancer later that year, leaving behind 60,000 negatives and photographs carelessly stuffed in cardboard boxes in the attic, as well as a further 20,000 documents, journals, cameras, love letters and Nazi relics. As he catalogued his mother's work, Antony Penrose said he realised he had been "cheated out of knowing someone exceptional". Carolyn Burke's sympathetic tribute sheds further light on the lives of this highly original, often misunderstood woman.

Lee Miller: A Life.
By Carolyn Burke.
Knopf; 426 pages; $35. Bloomsbury; £20

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American film

Big little man

Dec 1st 2005
From The Economist print edition

WHEN Richard Schickel was growing up “in the dimmer reaches of the Midwest”, he read about a Broadway production of Tennessee Williams's “A Streetcar Named Desire” and a young actor who was stealing the show. Years later, he became a film critic for *Time*, wrote a biography of the actor, Marlon Brando, and became friends with the man who directed both the play and the film, Elia Kazan.

Now he has produced a study that is a worthy companion to the director's own autobiography, which came out in 1988. Most directors are invisible men working at a craft that few people understand, but for four decades Kazan was a star in his own right. This new work is not a celebrity biography, rife with scandal and revelation. Instead it focuses on Kazan as a theatre and film director, starting from the reasonable premise that this important career was obscured by the opprobrium cast upon Kazan after he testified before the House Committee on Un-American Activities in 1952. It is easy to forget that the committee's friendly witnesses did not always renounce their political ideals when they named names to avoid blacklisting. Kazan, the author argues, never ceased to be a radical.

Elia Kazan: A Biography
By Richard Schickel

HarperCollins; 489 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Schickel is sympathetic to Kazan's ideals and the political engagement of The Group Theatre, the left-wing repertory company which introduced the Stanislavsky method to America and where Kazan started out. One of the best things about this immensely likeable book is the passion with which the author writes about forgotten theatre productions of the 1930s and 1940s that sought to wed art and politics. Illuminated by his criticism, films like “Gentleman's Agreement”, “Viva Zapata!”, “On the Waterfront”, “Wild River” and “America, America” prove that Kazan never abandoned the aims of The Group, even after he named other members of its communist “unit” to the committee.

Where Kazan's films have not aged well, it is usually because the writing, shaped by the theatre that nourished them, now rings false. Mr Schickel knows this, yet he both loves the films and communicates that love to the reader. His book is a history of an era and an invitation to rediscover a film-maker whose best moments seem to imprint their subject, life itself, directly on the screen.

Elia Kazan: A Biography.
By Richard Schickel.
HarperCollins; 489 pages; $29.95

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Portrait of a lady and her daughter

Maven mystery

Dec 1st 2005
From The Economist print edition

A rare unfinished Titian portrait, to be auctioned at Christie's on December 8th, tells us a great deal about how the artist worked out his thoughts in paint

No more angel face

WHEN Titian's eldest son, a wastrel named Pomponio, sold off his dead father's studio and its contents in 1581, an unremarkable painting of the young Tobias with an angel was part of the sale. The picture was hung in the Barbarigo family palazzo on Venice's Grand Canal. There it remained until 1850 when it was again sold, with 102 other paintings, to the Russian consul-general. His master, Tsar Nicholas I, however, did not much care for Titian's late works—in his view they weren't polished enough for the Hermitage—and the Barbarigo pictures were sold on in favour of other works he liked more.

By 1937, the Tobias belonged to René Gimpel, a French art dealer, who had married the youngest sister of Lord Duveen, a wily and wildly successful British dealer. With war approaching, Gimpel sent his paintings to London in 1939. The collection survived the blitz in a Bayswater garage, but Gimpel himself was arrested for being a member of the Resistance and died in a German concentration camp in 1944. His three sons went on to found a new gallery, Gimpel Fils, in his memory. One, a scientist, was particularly interested in the newly emerging scientific study of Old Masters, and the Tobias was despatched to be x-rayed at the Courtauld Institute. Beneath the

curly-haired boy and his tubby, winged friend another image became visible—that of a calm beauty with plaited tresses and a velvet gown, a worldly wise little girl standing beside her.

One of Titian's studio assistants had reworked the portrait after Titian's death to make it more sellable, there being no market for portraits of women at the time. In 1983, the Gimpel family decided to remove the overpainted Tobias in the hope of revealing the Titian beneath. For this delicate job they called in Alec Cobbe, who is regarded by some as the pre-eminent Old Master restorer. Mr Cobbe spent 20 years, gently cleaning away varnish, paint and dust, to uncover the unvarnished and obviously unfinished portrait below.

The result is a curious mixture. The faces could be real people; the woman gazes knowingly at the viewer. She wears a flower behind her ear, a modest adornment, which suggests she was a member of the household rather than a patrician matron displaying her wealth. Her daughter is more richly adorned, with an amethyst earring and pearl-laced hair. But her dress and gestures are incomplete. The woman appears to have once held a flower in her right hand, until the painter began to rework it into a fan indicated by a blur of white paint and the upward gaze of her child.

Titian scholars agree that this is the master's work, but Christie's is nervous of its unfinished state, its sitters and its date. It has put a relatively low pre-sale estimate of £5m-8m ($8.6m-13.7m) on the picture. David Jaffe regards it as inferior, and he did not hang it in the magnificent Titian show he curated at the National Gallery in London in 2003. Yet it was included when the exhibition transferred to the Prado in Madrid later that year. After examining it there alongside other later works, Jaynie Anderson of the University of Melbourne established the picture's provenance in *Burlington*, a respected art magazine. She believes it was painted entirely by Titian and that it is likely to have been a private family portrait that Titian put down when more pressing commissions called; his clients included King Philip II of Spain and the Doges of Venice.

But if it is a family member, who might she be? The question is important, as much for dating the picture as for gaining a better idea of Titian's complex domestic arrangements. Charles Hope, director of the Warburg Institute, thinks the lady could be either Titian's legitimate daughter Lavinia, his natural daughter Emilia, or possibly his cousin Livia Balbi. Lavinia is less likely; she is too modest and does not entirely resemble other pictures of her. Titian, meanwhile, also gave Lavinia a big enough dowry to marry a gentleman farmer and his other portraits of her show her in more lavish dress. If it were Emilia, who married in 1568 and had a daughter, it would mean a date of the mid-1570s, which is later than that proposed by most scholars. Livia Balbi took refuge in Titian's home when she separated from her husband. By 1574 she had a grown daughter, in which case the painting would date from the 1560s. There are indeed records of a framed portrait of Livia being returned to her husband after Titian's death, but as this painting is unfinished, it is unlikely that it would have been framed.

Professor Anderson thinks the lady could be Titian's mistress—possibly his daughter Emilia's mother, who was a servant in his home in the 1550s (his wife Cecilia died in 1530) and that the painting is from the mid- to late-1550s. This might also explain the lady's modest adornments and the more expensive jewels of her daughter, who this portrait would help to legitimise as a member of the Titian household. Although no scholars have commented on this, the girl, with her dark curls, piercing gaze and long nose bears more of a resemblance to Titian than to her mother. Professor Anderson cites a recent book on late Titian by Lionello Puppi, an Italian art historian, that indicates Pomponio was cruel to his other siblings. If so, it is plausible that he would have tried to have his father's mistress and her illegitimate daughter painted out of history.

Whoever the sitter is, this painting offers a rare glimpse of the artist working out his thoughts in paint, showing in a single canvas the various stages of creating a picture. Titian was famed for painting directly on to the canvas from life and very few drawings or oil sketches by him remain. While the painting's unfinished nature may be seen as a weakness, it is a window into the mind of

a master.

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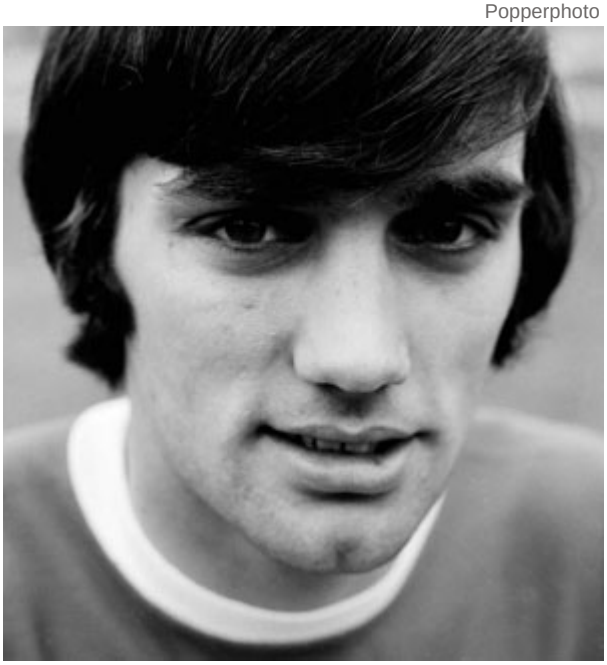
Obituary

George Best

Dec 1st 2005
From The Economist print edition

Popperphoto



George Best, football's flawed hero, died on November 25th, aged 59

AT FOOTBALL grounds in Britain last weekend, players and spectators stood in silence in memory of George Best, a ceremony once reserved to honour the war dead. Mr Best last played top-class football more than 30 years ago, when most of today's spectators would have been too young to see him play. However, if anyone doubted his divinity, they were reassured by veteran reporters whose memories of him have remained impressively vivid. “I can still see him now,” wrote one, “slim, boyish, dark hair shining in the floodlights as he scythed though the defence... It was sheer poetry. I can remember leaping to my feet against all the etiquette of the press box, so stunning was the fluid scoring movement.”

Mr Best was unquestionably a clever kicker of the ball. All the things that the experts have said about him, his pace, his balance, his bravery against opponents who were trying to maim him, need not be challenged. Nor does it matter that some heretics say he was selfish with the ball and that Johan Cruyff of the Netherlands was a better player. Homage to George Best may be tasteless, but the British can be suddenly moved to a wave of sentiment for a flawed icon, as they were for Princess Diana. More interesting is that he was a catalyst for the changes in popular culture in Britain over the past decades.

There were other catalysts in action when he started playing for Manchester United in the 1960s. The Beatles were changing popular music, fashion designers such as Mary Quant were getting young people to dress to look their age instead of like their parents. A lot of money seemed to be

about.

A professional footballer, though, was expected until 1961 to be grateful for the £20 (then $56) a week maximum wage, equivalent to £260 today, derisory pay for an entertainer even then. Young Best was initially happy with £50, which paid for his lodgings and a few treats, such as going to the cinema. But such parsimony couldn't last. Quite quickly, top quality football fell in line with an expanding entertainment industry prepared to pay outrageous amounts for talent that could be sold to big audiences. David Beckham earned millions with Manchester United. He is part of a world entertainment business that George Best helped to get going.

A star is born

He was born in a modest house in Belfast. At 15 he was starting an apprenticeship to a printer when a Manchester United scout spotted him at a kick-about. “I think I've found you a genius,” the scout reported to the United manager, Matt Busby. George left Northern Ireland wearing long trousers for the first time, and rarely returned. He played first for United's youth team and at 17 turned professional. By 20 he was a superstar, a common enough noun these days in the entertainment lexicon, but rare then. For five seasons in a row he was his club's leading goal scorer. He was named both British and European footballer of the year. With George Best as its icon Manchester United was on its way to becoming eventually the country's football superpower, challenged these days only by Chelsea, which can call on seemingly limitless amounts of Russian money, and Arsenal, with its French manager and stars.

But Mr Best was not simply a maker and taker of goals. He was a good looker. His fans, many of them the young women who idolised pop music stars, were happy to pay money to watch him, whether or not they understood the offside rule. In the pre-Best days no one cared about the colour of a player's eyes. Best's fans knew they were blue, just as they knew the name of the hairdresser who kept his Beatle-style hair in trim.

Middle-class money also started to come into the stands. It became fashionable to pass a Saturday afternoon watching good football. For some business firms these days a stand seat at a cost of £1,000 a season is a smart gift to a valued customer.

Mr Best fancied himself as a businessman. He invested in shops and bars, but without success. More reliable money came from modelling, from a number of autobiographies ghost-written, endorsing consumer products and commenting on the game on television. Like the newly-rich stars of football who followed him, he built a statelyish house. The media diligently reported his rise to fame and the sexual activity with drop-dead blondes that went with it, just as it painstakingly followed his slow self-destruction.

He left Manchester United when he was 27, young for a top player. He said he was bored. He was drinking and, worse, he loved drinking. Friends may have encouraged him: sober he was dull, after a few drinks he was good company. After a few more he could become violent.

He returned to football for a time, some with English clubs, some in the North American Soccer League such as the Los Angeles Aztecs (the league was a refuge for other ageing stars such as Brazil's Pele). He hit rock bottom as the star of the team at Ford Open Prison, where he had been jailed after resisting arrest, accused of drunk driving.

It is unlikely the rituals for George Best will be repeated. But academics researching the social history of Britain in the second half of the 20th century may perhaps grant him the immortality of a footnote.

Overview

Dec 1st 2005
From The Economist print edition

America's GDP growth was revised up to an annualised 4.3% in the third quarter. The strength of business spending continued into the autumn months. New orders for core capital goods (excluding aircraft and military equipment) grew by 1.3% in October.

America's **housing market** was difficult to read in October. Sales of existing homes fell to their slowest pace since March, but sales of new homes surged. Consumers are feeling happier: in November the Conference Board's index of consumer confidence regained about two-thirds of the ground it had lost since the hurricanes of August.

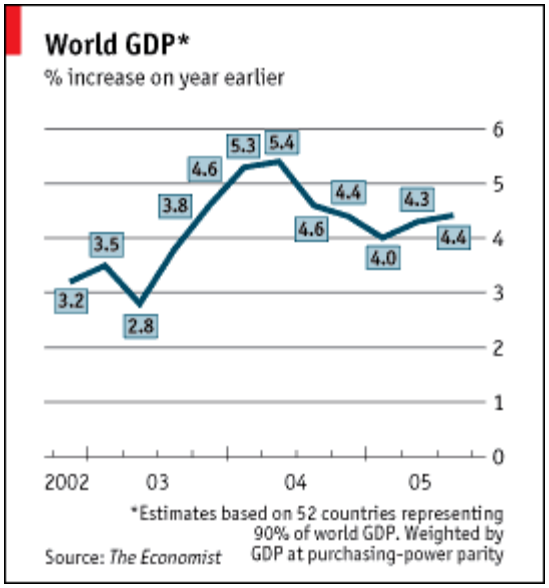
Deflation continues in **Japan**. Its overall consumer-price index (CPI) fell by 0.7% in the year to October, the biggest drop for three years. On the other hand, the core CPI (excluding volatile fresh-food prices) was flat. But if oil prices are also excluded from the core measure, as in most other countries, the inflation rate is still firmly negative.

Japan's jobless rate rose to 4.5% in October. But the closely watched ratio of job vacancies to applicants rose to its highest rate for 13 years. The growth in industrial production quickened to 3.0% in the year to October.

The **euro area's** average inflation rate edged down to 2.4% in November, from 2.5% in October. **Germany's** inflation rate remained at 2.3%; **Italy's** at 2.2%.

Canada's GDP growth increased to an annual rate of 3.6% in the third quarter.

The growth of **world GDP** has quickened during 2005. According to our first estimate, *The Economist*'s global GDP indicator grew by 4.4% in the year to the third quarter, up from 4.0% in the first quarter.



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Output, demand and jobs

Dec 1st 2005
From The Economist print edition

% change on year ago

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	latest		qtr*	2005	2006	latest		latest		latest		year ago
Australia	+ 2.6	Q2	+ 5.2	+ 2.7	+ 3.3	+ 0.7	Q2	+ 1.2	Q3	5.2	Oct	5.3
Austria	+ 2.1	Q2	+ 1.8	+ 1.6	+ 1.9	+ 1.6	Sep	+ 6.5	Aug	5.3	Oct	4.9
Belgium	+ 1.1	Q3	+ 1.6	+ 1.3	+ 1.8	– 3.9	Sep	+ 7.4	Aug	13.2	Oct†	13.2
Britain	+ 1.7	Q3	+ 1.6	+ 1.8	+ 2.1	– 1.1	Sep	+ 1.5	Oct	4.7	Sep††	4.7
Canada	+ 2.8	Q3	+ 3.6	+ 2.9	+ 3.0	+ 1.1	Sep	+ 4.9	Aug	6.6	Oct	7.1
Denmark	+ 4.8	Q3	+ 5.7	+ 2.2	+ 2.2	+ 2.0	Sep	+ 4.4	Oct	5.5	Sep	6.3
France	+ 1.8	Q3	+ 2.7	+ 1.5	+ 1.7	+ 0.2	Sep	+ 2.6	Sep	9.7	Oct	10.0
Germany	+ 1.4	Q3	+ 2.5	+ 0.9	+ 1.3	+ 3.3	Sep	– 0.8	Oct	11.5	Nov§	10.7
Italy	nil	Q3	+ 1.2	+ 0.2	+ 1.2	– 1.7	Sep	+ 1.1	Aug	7.7	Jun	8.1
Japan	+ 3.0	Q3	+ 1.7	+ 2.3	+ 2.0	+ 3.0	Oct	+ 0.4	Sep	4.5	Oct	4.6
Netherlands	+ 0.9	Q3	+ 1.3	+ 0.7	+ 1.7	+ 1.6	Sep	+ 1.9	Aug	6.5	Oct**	6.5
Spain	+ 3.5	Q3	+ 3.3	+ 3.4	+ 3.0	+ 0.5	Sep	+ 1.9	Sep	9.3	Sep	10.8
Sweden	+ 2.3	Q2	+ 2.6	+ 2.3	+ 2.8	nil	Sep	+ 7.3	Oct	5.6	Oct†	4.9
Switzerland	+ 2.3	Q3	+ 4.3	+ 1.1	+ 1.6	+ 3.9	Q2	+ 4.7	Aug	3.7	Oct†	3.7
United States	+ 3.7	Q3	+ 4.3	+ 3.6	+ 3.3	+ 1.9	Oct	+ 2.6	Sep	5.0	Oct	5.5
Euro area	+ 1.6	Q3	+ 2.6	+ 1.3	+ 1.6	+ 1.0	Sep	+ 0.9	Sep	8.4	Sep	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.7	Q3	+ 7.8	na	na	– 0.8	Oct	+ 5.5	Sep	8.1	Oct	8.7
Greece	+ 3.7	Q3	na	na	na	+ 0.1	Sep	+ 3.9	Aug	9.6	Q2	10.2
Iceland	+ 6.8	Q2	na	na	na	na		na		1.4	Sep†	2.6
Ireland	+ 4.1	Q2	+ 6.5	na	na	+ 0.4	Sep	+ 5.0	Sep	4.4	Oct	4.4
Luxembourg	+ 3.1	Q1	na	na	na	+15.8	Aug	+ 1.2	Sep	4.8	Oct	4.3
New Zealand	+ 2.6	Q2	+ 4.5	na	na	– 1.5	Q2	+ 4.9	Q3	3.4	Q3	3.8
Norway	+ 4.8	Q2	+ 5.2	na	na	+ 5.0	Sep	+ 3.5	Oct	4.7	Oct‡	4.5
Portugal	+ 0.5	Q2	+ 4.1	na	na	+ 0.7	Oct	+ 2.5	Sep	7.7	Q3†	6.8

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Jul-Sep; claimant count rate 2.8% in Oct.
§EU harmonised rate 8.7% in Sep. **Aug-Oct.

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Prices and wages

Dec 1st 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	The Economist poll consumer prices forecast 2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.0	Q3	+ 2.3	+ 2.8	+ 2.7	+ 6.2	Q3	+ 6.1	+ 6.1	Q3	+ 3.5
Austria	+ 2.0	Oct	+ 2.6	+ 2.2	+ 2.0	+ 1.3	Oct	+ 6.0	+ 2.3	Oct	+ 2.0
Belgium	+ 2.6	Nov	+ 2.5	+ 2.5	+ 2.2	+ 1.6	Oct	+ 6.0	+ 2.5	Jul	+ 2.2
Britain	+ 2.3	Oct*	+ 1.2	+ 2.2	+ 2.2	+ 2.6	Oct	+ 3.5	+ 4.1	Sep†	+ 3.8
Canada	+ 2.6	Oct	+ 2.3	+ 2.4	+ 2.5	+ 1.4	Oct	+ 5.4	+ 2.2	Sep	+ 2.4
Denmark	+ 2.0	Oct	+ 1.7	+ 1.8	+ 1.9	+ 4.3	Oct	+ 3.6	+ 2.8	Q3	+ 2.9
France	+ 1.8	Oct	+ 2.1	+ 1.9	+ 1.7	+ 2.9	Oct	+ 3.5	+ 3.2	Q3	+ 2.9
Germany	+ 2.3	Nov	+ 1.8	+ 2.0	+ 1.9	+ 2.7	Oct	+ 4.2	+ 1.1	Sep	+ 1.0
Italy	+ 2.2	Nov	+ 1.9	+ 2.1	+ 2.1	+ 3.9	Oct	+ 4.4	+ 3.0	Oct	+ 2.7
Japan	– 0.7	Oct	+ 0.5	– 0.1	+ 0.3	+ 1.9	Oct	+ 2.1	– 0.1	Oct	+ 0.4
Netherlands	+ 1.6	Oct	+ 1.4	+ 1.5	na	+ 5.3	Sep	+ 6.1	+ 1.0	Oct	+ 0.9
Spain	+ 3.5	Oct	+ 3.6	+ 3.3	+ 3.1	+ 4.9	Oct	+ 5.4	+ 3.4	Q2	+ 3.1
Sweden	+ 0.5	Oct	+ 0.8	+ 0.8	+ 1.5	+ 4.1	Oct	+ 3.0	+ 3.4	Sep	+ 3.1
Switzerland	+ 1.0	Nov	+ 1.5	+ 1.3	+ 1.2	+ 1.0	Oct	+ 2.0	+ 0.9	2004	+ 1.4
United States	+ 4.3	Oct	+ 3.2	+ 3.4	+ 3.1	+ 5.9	Oct	+ 4.4	+ 2.9	Oct	+ 2.6
Euro area	+ 2.4	Nov	+ 2.2	+ 2.2	+ 1.9	+ 4.4	Sep	+ 3.3	+ 2.3	Q2	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.8	Oct	+ 0.9	na	na	+ 3.3	Oct	+ 3.0	+ 3.6	Q3	+ 4.0
Greece	+ 3.8	Oct	+ 3.2	na	na	+ 6.3	Oct	+ 5.3	na		na
Iceland	+ 4.2	Nov	+ 3.8	na	na	+ 3.9	Nov	+ 6.1	+ 6.9	Oct	+ 5.3
Ireland	+ 3.0	Oct	+ 2.7	na	na	+ 0.9	Oct	– 0.4	+ 3.4	Q2	+ 4.3
Luxembourg	+ 3.1	Oct	+ 2.5	na	na	+ 2.5	Sep	+15.1	+ 1.2	Aug	+ 2.3
New Zealand	+ 3.4	Q3	+ 2.5	na	na	+ 6.1	Q3	+ 2.5	+ 3.0	Q3	+ 2.2
Norway	+ 1.8	Oct	+ 1.4	na	na	+10.1	Oct	+24.1	+ 2.6	Q3	+ 4.3
Portugal	+ 2.7	Oct	+ 2.1	na	na	+ 4.1	Oct	+ 5.3	– 1.4	Sep	– 0.8

*RPI inflation rate 2.5% in Oct. †Jul-Sep.

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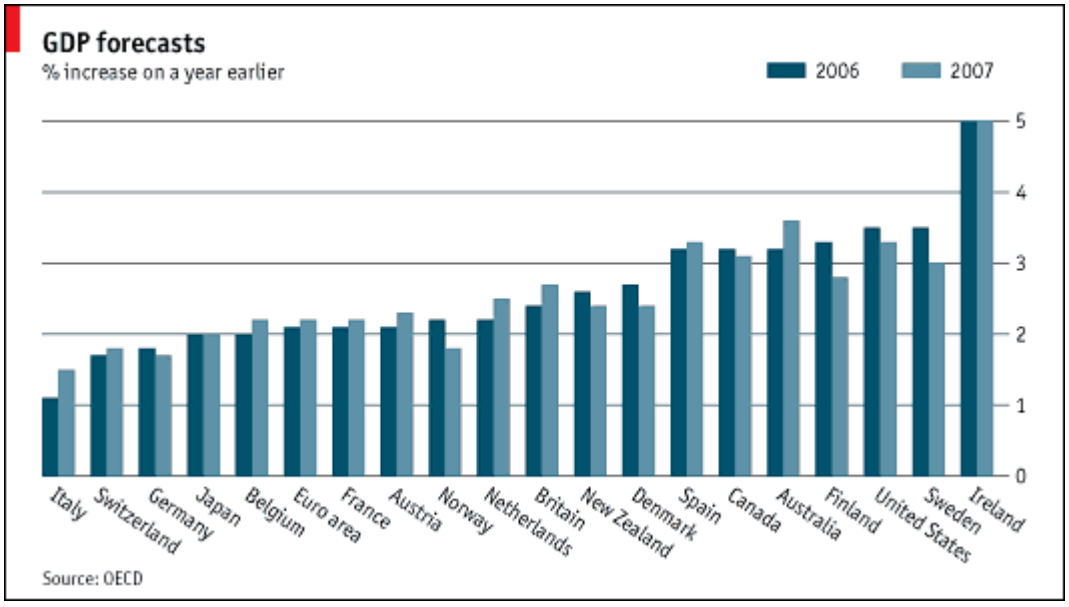
GDP forecasts

Dec 1st 2005
From The Economist print edition

Stronger growth next year, but with bigger risks: that is the message of the OECD's latest Economic Outlook. The rich-country club expects its members' combined output to grow by 2.9% in 2006, up from a projected 2.7% in 2005. Euro-area growth is forecast to accelerate to 2.1% in 2006. The OECD frets about rising external imbalances: it expects America's current-account deficit to top 7% of GDP in 2007.



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Money and interest rates

Dec 1st 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Nov 30th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 6.5	+ 7.9	Oct	5.63	5.39	5.23	5.38	5.22	6.37
Britain	+ 5.2	+11.6	Oct	4.58	4.81	4.29	4.19	4.62	5.16
Canada	+ 7.8	+ 8.9	Oct	3.30	2.54	3.78	4.05	4.49	5.21
Denmark	+19.0	+14.1	Oct	2.45	2.25	2.80	3.39	3.96	4.96
Japan	+ 5.4	+ 2.0	Oct	0.02	0.02	0.22	1.45	1.46	1.53
Sweden	+ 2.8	+ 5.6	Sep	1.61	2.02	2.38	3.33	4.00	3.20
Switzerland	+ 4.0	+ 6.2	Oct	1.01	0.73	1.53	2.13	2.31	2.32
United States	+ 0.5	+ 7.3	Oct	4.06	2.38	4.42	4.54	4.37	5.48
Euro area†	+11.2	+ 8.0	Oct	2.47	2.17	2.73	3.39	3.75	3.79

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.70%, Japan No. 273 1.43%. Central bank rates: US fed funds 4.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 1st 2005
From The Economist print edition

2000=100

	Nov 22nd	Nov 29th*	% change on one month	% change on one year
Dollar index				
All items	136.6	137.0	+ 2.2	+ 9.9
Food	122.3	121.3	– 1.0	+ 4.2
Industrials				
All	155.0	157.4	+ 5.6	+16.2
Nfa†	132.6	133.0	– 0.2	+ 9.5
Metals	167.2	170.7	+ 8.2	+19.3
Sterling index				
All items	121.0	121.0	+ 4.8	+22.3
Euro index				
All items	107.8	107.7	+ 4.2	+24.2
Yen index				
All items	151.1	152.0	+ 4.7	+27.8
Gold				
$ per oz	491.75	499.00	+ 8.5	+11.1
West Texas Intermediate				
$ per barrel	58.28	56.25	– 6.1	+14.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Dec 1st 2005
From The Economist print edition

Market indices

	Nov 30th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,583.6	4,617.4	3,905.5	+ 0.5	- 0.7	+13.1	+ 6.8
Austria (ATX)	3,493.4	3,503.9	2,415.0	+ 0.9	- 0.3	+43.7	+24.6
Belgium (Bel 20)	3,394.1	3,421.7	2,958.8	- 0.2	- 7.8	+15.7	+ 0.3
Britain (FTSE 100)	5,423.2	5,531.7	4,783.6	- 2.0	-21.7	+12.6	+ 1.5
Canada (Toronto Composite)	10,824.1	11,081.8	9,006.2	- 0.9	- 5.0	+17.1	+20.0
Denmark (OMXCB)	343.6	347.6	257.8	- 1.1	- 1.1	+33.3	+15.3
France (SBF 250)	3,190.4	3,248.3	2,633.6	- 0.7	-27.3	+21.1	+ 5.0
(CAC 40)	4,567.4	4,650.2	3,816.1	- 0.9	-34.0	+19.5	+ 3.6
Germany (DAX)*	5,193.4	5,199.5	4,178.1	- 0.1	-35.6	+22.0	+ 5.8
Italy (S&P/MIB)	34,090.0	34,874.0	30,645.0	- 0.9	-32.0	+10.3	- 4.4
Japan (Nikkei 225)	14,872.2	14,986.9	10,825.4	+ 1.1	-61.8	+29.4	+10.8
(Topix)	1,536.2	1,544.6	1,109.2	+ 0.6	-46.7	+33.6	+14.4
Netherlands (AEX)	418.8	420.3	347.0	- 0.2	-40.3	+20.3	+ 4.3
Spain (Madrid SE)	1,138.5	1,176.9	950.9	- 0.5	- 3.3	+18.7	+ 2.9
Sweden (Affarsvarlden Gen)	277.2	279.3	218.9	- 0.7	-30.7	+25.3	+ 3.0
Switzerland (Swiss Market)	7,407.5	7,498.7	5,669.6	- 1.2	-11.9	+30.1	+12.5
United States (DJIA)	10,805.9	10,940.6	10,012.4	- 1.0	- 7.8	+ 0.2	+ 0.2
(S&P 500)	1,249.5	1,268.3	1,137.5	- 1.3	-18.2	+ 3.1	+ 3.1
(NASDAQ Comp)	2,232.8	2,263.0	1,904.2	- 1.2	-55.8	+ 2.6	+ 2.6
Europe (FTSEurofirst 300)†	1,236.1	1,248.2	1,038.6	- 1.0	-27.5	+18.6	+ 2.9
Euro area (FTSE Euro 100)†	1,049.5	1,056.1	894.4	- 0.6	-32.3	+16.5	+ 1.0
World (MSCI)‡	1,231.4	1,243.8	1,115.0	- 1.0	-15.0	+ 5.3	+ 5.3
World bond market (Citigroup)††	613.4	662.3	608.7	nil	- 7.4	- 7.9	- 7.9

*Total return index. †In euro terms. ‡Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 1st 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Nov 30th	year ago	Currency units per $ Nov 30th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 16.1	Sep	− 43.5	Q3	− 4.7	− 5.3	118.3	113.6	1.35	1.29	2.34	1.59	1.13	+ 1.0
Austria	− 1.9	Sep	+ 0.2	Sep	− 0.2	− 0.3	104.0§	104.1	0.85	0.75	1.47	–	0.71	− 2.0
Belgium	+ 15.4	Sep	+ 9.2	Jun	+ 2.4	+ 2.4	104.5§	104.6	0.85	0.75	1.47	–	0.71	nil
Britain	−116.7	Sep	− 43.6	Q2	− 2.2	− 2.4	98.4	100.7	0.58	0.52	–	0.68	0.48	− 3.1
Canada	+ 48.8	Sep	+ 16.3	Q2	+ 1.6	+ 1.5	124.7	120.2	1.17	1.18	2.02	1.38	0.98	+ 1.3
Denmark	+ 10.4	Sep	+ 11.0	Sep	+ 2.8	+ 2.5	106.0	106.6	6.32	5.58	10.9	7.45	5.28	+ 2.8
France	− 27.7	Sep	− 28.4	Sep	− 1.0	− 0.8	107.0§	107.2	0.85	0.75	1.47	–	0.71	− 3.2
Germany	+203.9	Sep	+113.6	Sep	+ 3.7	+ 3.5	104.8§	104.9	0.85	0.75	1.47	–	0.71	− 3.9
Italy	− 10.4	Sep	− 27.8	Sep	− 1.3	− 1.4	76.6§	76.7	0.85	0.75	1.47	–	0.71	− 4.3
Japan	+102.2	Sep	+111.1	Sep	+ 3.3	+ 3.3	81.0	89.4	120	103	207	141	–	− 6.5
Netherlands	+ 39.8	Sep	+ 44.3	Q3	+ 3.6	+ 3.6	103.9§	104.1	0.85	0.75	1.47	–	0.71	− 1.6
Spain	− 93.9	Sep	− 79.0	Aug	− 6.6	− 6.6	77.3§	77.3	0.85	0.75	1.47	–	0.71	+ 0.3
Sweden	+ 20.8	Oct	+ 24.2	Q3	+ 7.1	+ 6.5	93.9	101.8	8.08	6.72	14.0	9.53	6.75	+ 1.2
Switzerland	+ 7.1	Oct	+ 51.4	Q2	+12.3	+11.7	106.5	109.6	1.32	1.14	2.28	1.55	1.10	− 1.6
United States	−753.2	Sep	−749.7	Q2	− 6.5	− 6.6	88.2	80.1	–	–	1.73	1.18	0.84	− 3.7
Euro area	+ 47.3	Sep	+ 1.4	Sep	+ 0.1	+ 0.1	115.4	118.7	0.85	0.75	1.47	–	0.71	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.7	Sep	+ 8.0	Sep	na	na	81.5§	81.6	0.85	0.75	1.47	–	0.71	+ 2.1
Greece	− 34.0	Sep	− 16.5	Sep	na	na	59.9§	60.0	0.85	0.75	1.47	–	0.71	− 4.5
Iceland	− 1.3	Oct	− 1.6	Q2	na	na	106.7**	96.1	63.1	64.4	109	74.4	52.7	+ 2.0
Ireland	+ 40.6	Sep	− 3.9	Q2	na	na	94.2§	94.4	0.85	0.75	1.47	–	0.71	− 0.9
Luxembourg	− 4.4	Aug	+ 3.5	Q2	na	na	104.5§	104.6	0.85	0.75	1.47	–	0.71	− 2.3
New Zealand	− 4.3	Oct	− 8.2	Q2	na	na	142.8	133.4	1.42	1.39	2.46	1.67	1.19	+ 5.3
Norway	+ 45.9	Oct	+ 40.8	Q2	na	na	110.2	107.5	6.73	6.12	11.6	7.93	5.62	+ 15.3
Portugal	− 14.2	Aug	− 16.6	Sep	na	na	93.7**	93.6	0.85	0.75	1.47	–	0.71	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Exchange-rate forecasts

Dec 1st 2005
From The Economist print edition

Exchange-rate forecasts

Currency units per dollar

	Nov 29th	3-month	12-month
Euro area*	1.18	1.23	1.26
Japan	120	117	112
Australia	1.35	1.32	1.28
Britain†	1.72	1.78	1.80
Canada	1.17	1.16	1.13
Denmark	6.33	6.08	5.92
Sweden	8.08	7.60	7.34
Switzerland	1.31	1.25	1.21
China	8.08	7.70	7.00
Singapore	1.69	1.66	1.58
South Korea	1,036	1,040	950
Brazil	2.19	2.28	2.45
Mexico	10.6	11.2	11.3
Poland	3.31	3.23	3.02
Russia	28.8	28.3	28.2
South Africa	6.50	6.37	6.30

Source: J.P. Morgan Chase *$ per € †$ per £

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Overview

Dec 1st 2005
From The Economist print edition

China's current-account surplus jumped to $67.3 billion in the first half of this year, nine times bigger than a year ago. The 12-month surplus widened to $128.5 billion.

India's GDP grew by 8.0% in the year to the third quarter. Financial and business services surged by 9.9%. **Brazil's** GDP fell in the third quarter for the first time in two years, trimming its 12-month growth rate to 1.0%.

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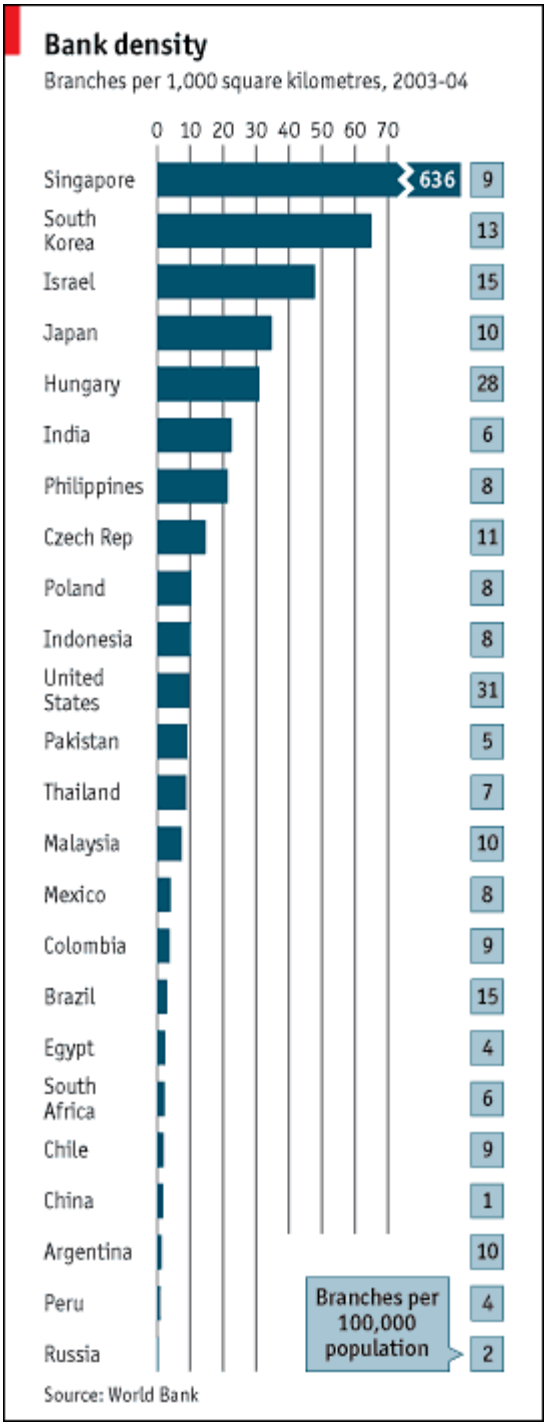
Bank density

Dec 1st 2005
From The Economist print edition

Need to pop to the bank? The “local” branch is more local in some countries than in others. According to a study by the World Bank, Singapore has 636 branches for every 1,000 square kilometres; Russia and Peru have less than one. On an alternative measure of bank access, Hungary has 28 branches for every 100,000 people (almost as many as America's 31 branches), while China has only one per 100,000.



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Economy

Dec 1st 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q3	+16.1	Oct	+ 1.2	Oct	+101.5	Oct	+128.5	H1	769.0	Sep
Hong Kong	+ 8.2	Q3	– 0.1	Q2	+ 1.8	Oct	– 9.0	Oct	+21.5	Q2	121.9	Oct
India	+ 8.0	Q3	+ 7.3	Sep	+ 4.2	Oct	–36.5	Oct	–16.0	Q2	137.6	Oct
Indonesia	+ 5.3	Q3	– 3.4	Sep	+18.4	Nov	+25.6	Oct	+ 4.0	Q2	30.2	Sep
Malaysia	+ 5.3	Q3	+ 4.9	Sep	+ 3.3	Oct	+24.4	Sep	+18.0	Q2	76.4	Oct
Philippines	+ 4.1	Q3	– 5.0	Sep	+ 7.0	Oct	– 1.9	Sep	+ 3.2	Jun	15.6	Oct
Singapore	+ 6.0	Q3	+17.6	Oct	+ 1.1	Oct	+16.4	Oct	+33.7	Q3	115.6	Oct
South Korea	+ 4.4	Q3	+ 8.0	Oct	+ 2.4	Nov	+25.2	Nov	+19.2	Oct	207.2	Oct
Taiwan	+ 4.4	Q3	+ 9.3	Oct	+ 2.6	Oct	+ 2.9	Oct	+ 8.9	Q3	252.0	Oct
Thailand	+ 4.4	Q2	+ 4.9	Oct	+ 5.9	Nov	– 7.9	Oct	– 3.0	Oct	48.5	Oct
Argentina	+10.1	Q2	+ 6.8	Oct	+10.7	Oct	+11.5	Oct	+ 2.9	Q2	24.8	Sep
Brazil	+ 1.0	Q3	+ 0.2	Sep	+ 6.4	Oct	+41.9	Oct	+13.0	Oct	59.7	Oct
Chile	+ 5.2	Q3	+ 4.2	Oct	+ 4.1	Oct	+ 8.7	Oct	– 0.2	Q3	15.0	Oct
Colombia	+ 5.3	Q2	+ 3.4	Sep	+ 5.3	Oct	+ 1.6	Aug	– 0.8	Q2	14.1	Oct
Mexico	+ 3.3	Q3	+ 1.0	Sep	+ 3.1	Oct	– 9.5	Oct	– 8.4	Q3	69.9	Sep
Peru	+ 5.7	Sep	+ 6.0	Sep	+ 1.3	Oct	+ 4.3	Sep	+ 0.4	Q2	12.7	Oct
Venezuela	+ 9.8	Q3	+12.4	Sep	+16.0	Oct	+28.2	Q3	+21.6	Q3	26.4	Aug
Egypt	+ 5.2	Q1	+ 3.3	2004†	+ 3.7	Sep	–10.4	Q2	+ 2.9	Q2	19.8	Sep
Israel	+ 5.7	Q3	+12.1	Sep	+ 2.7	Oct	– 7.9	Oct	+ 1.3	Q2	28.4	Oct
South Africa	+ 4.9	Q3	+ 5.9	Sep	+ 4.0	Oct	– 2.9	Oct	– 8.6	Q2	17.8	Oct
Czech Republic	+ 5.1	Q2	+ 7.1	Sep	+ 2.6	Oct	+ 1.5	Sep	– 4.1	Q2	29.4	Oct
Hungary	+ 4.5	Q3	+ 8.9	Sep	+ 3.2	Oct	– 3.4	Sep	– 8.6	Q2	17.5	Oct
Poland	+ 2.8	Q2	+ 7.6	Oct	+ 1.6	Oct	– 3.2	Sep	– 4.8	Sep	40.1	Oct
Russia	+ 6.1	Q2	+ 3.5	Oct	+11.8	Oct	+117.0	Sep	+87.4	Q3	161.2	Oct
Turkey	+ 4.2	Q2	+ 9.3	Sep	+ 7.5	Oct	–42.5	Oct	–21.4	Sep	41.8	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 9.9	Q2	+ 8.7	Oct	+ 4.5	Oct	– 2.4	Sep	– 1.5	Sep	1.7	Sep
Latvia	+11.6	Q2	+ 7.8	Sep	+ 7.6	Oct	– 2.8	Sep	– 1.6	Sep	2.3	Sep
Lithuania	+ 7.6	Q3	na		+ 2.9	Oct	– 3.4	Sep	– 1.5	Sep	3.6	Sep
Slovakia	+ 5.1	Q2	+ 5.4	Sep	+ 3.3	Oct	– 1.9	Sep	– 2.6	Aug	15.3	Sep
Slovenia	+ 5.2	Q2	+ 2.0	Sep	+ 2.1	Nov	– 1.4	Sep	– 0.3	Sep	8.1	Aug
Pakistan	+ 8.4	2005†	+13.6	Apr	+ 8.3	Oct	– 8.3	Oct	– 1.5	Q2	10.2	Sep
Saudi Arabia	+ 6.2	2005‡	na		+ 0.4	Aug	+85.2	2004	+51.5	2004	23.2	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡ Forecast.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Financial markets

Dec 1st 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 30th		Dec 31st 2004	
	Nov 30th	year ago	Nov 30th	% a year		one week	in local currency	in $ terms
China	8.08	8.28	14.0	1.59	1,155.5	-0.6	- 13.1	- 11.0
Hong Kong	7.75	7.77	13.4	4.27	14,937.1	-0.8	+ 5.0	+ 5.2
India	45.9	44.3	79.4	5.72	8,788.8	+1.7	+ 33.1	+ 26.1
Indonesia	10,030	9,010	17,356	14.46	1,096.6	+3.4	+ 9.6	+ 1.5
Malaysia	3.78	3.80	6.54	2.98	896.1	-0.7	- 1.2	- 0.7
Philippines	54.0	56.1	93.4	7.81	2,099.7	-0.2	+ 15.2	+ 19.7
Singapore	1.69	1.63	2.92	3.16	2,300.3	+0.2	+ 11.3	+ 7.5
South Korea	1,034	1,046	1,788	3.95	1,297.4	+1.2	+ 44.8	+ 45.1
Taiwan	33.5	32.2	58.0	1.55	6,203.5	+1.3	+ 1.0	- 4.5
Thailand	41.2	39.3	71.4	4.35	667.8	-0.2	- 0.1	- 5.9
Argentina	2.97	2.94	5.13	8.13	1,554.7	-4.5	+ 13.0	+ 13.3
Brazil	2.20	2.71	3.81	18.50	31,916.0	-0.1	+ 21.8	+ 47.0
Chile	515	584	892	4.92	9,430.6	-1.5	+ 5.2	+ 13.5
Colombia	2,275	2,475	3,936	6.39	8,600.6	+1.8	+ 97.9	+104.7
Mexico	10.6	11.2	18.3	8.50	16,831.0	+0.7	+ 30.3	+ 37.2
Peru	3.41	3.30	5.90	3.12	5,034.3	+1.3	+ 35.7	+ 30.4
Venezuela	2,463§	2,411§	4,262	11.55	19,992.7	-2.3	- 33.3	- 30.1
Egypt	5.76	6.24	9.97	9.10	48,665.6	nil	+ 97.9	+108.5
Israel	4.66	4.37	8.07	4.70	790.6	+2.1	+ 22.8	+ 13.8
South Africa	6.46	5.78	11.2	7.35	16,774.5	-2.7	+ 32.5	+ 15.6
Czech Republic	24.5	23.3	42.4	2.21	1,403.1	+0.5	+ 36.0	+ 23.8
Hungary	215	184	371	6.27	21,174.4	+1.9	+ 43.6	+ 21.0
Poland	3.31	3.13	5.73	4.63	33,926.1	+2.0	+ 27.4	+ 15.3
Russia	28.8	27.9	49.8	13.00	1,037.3‡	+2.0	+ 75.5	+ 68.9
Turkey	1.36	1.42	2.35	15.05	38,088.7	+5.3	+ 52.5	+ 51.8
EM (MSCI)*	1.00	1.00	1.73	na	668.0	+0.6	+ 23.2	+ 23.2
EMBI+†	1.00	1.00	1.73	na	362.0	-0.1	+ 9.8	+ 9.8

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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